U.S.-EUROPEAN AGRICULTURAL TRADE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
FOREIGN AGRICULTURAL POLICY

OF THE

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NUTRITION, AND FORESTRY
UNITED STATES SENATE

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U.S.-EUROPEAN AGRICULTURAL TRADE

THURSDAY, DECEMBER 10, 1981

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:07 a.m., in room 324, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Jepsen, Hawkins, and Pryor.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. The Senate Committee on Agriculture's Subcommittee on Foreign Agricultural Policy is meeting today to discuss principally the activities of the European Community and its common agricultural policy for the purpose of determining its impact on the agricultural trade of the United States, and whether or not new barriers and new levies are being imposed or subsidies being paid in the event of exports by European governments.

It is interesting to note that the cost of these subsidies and support programs in Europe are approximately, on an annual basis, 12 times the amount that is paid to American farmers under all of the farm programs that we've talked about and wrestled with at such length here in this room. The cost of the European program is somewhere between $37 and $40 billion. The cost of our programs is about $3 billion, and we have to wrench that out of a reluctant conference, some of whom are with us today.

In any event, these high prices that have been reported in Europe have a cost that led to higher production which has changed the nature of the European agricultural situation from one of being an importer when the European Community was founded to a substantial net exporter, and at the same time subsidizing those exports and causing them some problems. I know that the witnesses are going to review that, so I will not at the outset. But I would like to ask, Senator Hawkins, if you have an opening statement.

STATEMENT OF HON. PAULA HAWKINS, A U.S. SENATOR FROM FLORIDA

Senator HAWKINS. I am very pleased to be here to learn more about agricultural trade between the United States and the European Community. I think it's especially timely in the light of the meetings this weekend with Secretaries Haig, Baldrige, Block, and Special Trade Representative Brock. And I understand that Secretary Block is going to be here next week.

Senator BOSCHWITZ. That is correct. We will hold two hearings next week.

Senator HAWKINS. I am hopeful that through these discussions between the United States and the European Community that our agricultural commodities will obtain greater access into the European Community's market and that the European Community will modify its agricultural policy to insure free trade that we hear so much about on this side of the ocean. And to this end, you have my full support, and I pledge to do all I can to help improve our trading relationship with the European Community.

Senator BOSCHWITZ. Thank you, Senator. I am sure that our witnesses will allude to sugar. It is an important part of the European export program. I think they are exporting 4 million tons this year.

Before we begin with the testimony I would like to, somewhat out of order, Secretary Lyng, ask you that I understand you were quoted yesterday in Reuters, or on Tuesday, as having said there's a good possibility that the United States and the Soviets could meet to discuss a new long-term agreement in February of next year and that the minimum and maximum of the new agreements could well be raised.

I wonder, before we get into our testimony on the European Community if you would comment on the Reuters Report?

Secretary LYNG. Well, if its accurate. It was a wide-ranging interview that I had with the financial editor from London, who posed questions such as "Do you think there may be a meeting in February?" I said, "Yes, I think there may be a meeting in February." "Do you think that the minimums and maximums might be modified?" I said, "Yes, those are the things that we have to have general discussions on." I didn't intend for it to be any kind of a presignaling in that interview as to what might be the precise negotiating time or posture of our Government with the Soviets on a long-term treaty.

But, as you know, Mr. Chairman, we have talked in the past about perhaps increasing the minimum in the amounts the Soviets have been purchasing to something considerably more than the minimum amount, and there could be some valuable good to this Nation if that could be achieved.

Senator BOSCHWITZ. The minimums have been what, 8 million?

Secretary LYNG. 6 million tons.

Senator BOSCHWITZ. 6 million tons. But hasn't that agreement expired at this point?

Secretary LYNG. No. The 5-year agreement expired on September 30, but when the President lifted the embargo, or shortly thereafter, we negotiated an extension, a 1-year extension. It now goes to September 30, 1982. At that time it was agreed that the parties would gather to meet for a discussion of a longer term. We really hoped that might be accomplished by now, but we think it will be scheduled before too long.

Senator BOSCHWITZ. Was the preceding on the extension also at 6 million?

Secretary LYNG. Yes.

Senator BOSCHWITZ. I don't know why I have the eight in my mind.

Secretary LYNG. Eight was the maximum figure without further consultations. This year we are already well over the 8 million, even though the year started on October 1.

Senator BOSCHWITZ. Would you proceed with your testimony?

STATEMENT OF HON. RICHARD E. LYNG, DEPUTY SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary LYNG. Thank you, Mr. Chairman. I would like to compliment you and the committee for calling these hearings. I am pleased to appear before this subcommittee to discuss U.S. agriculture's relationship with the European Community, a group of nations with which this country has close cultural, economic, and for substantial numbers of Americans, ancestral ties.

The United States had supported European unification long before the Treaty of Rome was signed in 1957 to create the European Community and has supported the Community since. It is, in the view of this and preceding administrations, an important vehicle for peaceful resolution of European problems, for stimulating economic growth, and for mutual protection.

To achieve economic integration in the member countries, the drafters of the Treaty of Rome included the gradual establishment of a customs union to free up trade between member countries and to establish a common tariff on imports from countries outside the Community.

However, there was no assurance that this customs union, or Common Market, would extend to agriculture unless some means could be found to bring some uniformity and centralization to the agricultural programs of the member nations. Countries such as France and the Netherlands, with a strong interest in agricultural exporting, and Germany, with an influential rural population, pressed for such assurance.

As a result, the Treaty of Rome laid the basis for a common agricultural policy, or CAP, for the six member countries. The objectives of the CAP were to increase farm productivity, stabilize markets, insure a fair standard of living for farmers, guarantee regular supplies, and insure reasonable prices for consumers.

No one could quarrel with those objectives. However, the means used to achieve them have become a matter of increasing concern to the United States.

Before discussing these concerns, it might be helpful to summarize the operating principles of the CAP.

The CAP regulations, which now cover nearly all European Community agricultural products, are centered around three principles: One, Community preference, two, common pricing, and three common financing.

Community preference for European Community products is established by a system of European Community import tariffs and by variable import levies which make up the difference between world market prices and the high minimum support prices set by the European Community. This insulates European Community agriculture from the effects of world market prices.

The second principle, common pricing, requires that the price of an agricultural commodity be the same throughout the European Community, regardless of national duties or subsidies. A system of offsetting border taxes and compensatory amounts has been devised in an effort to equalize prices within the European Community when currency exchange rates fluctuate.

Farm price supports are set by the European Community Commission and are guaranteed to producers by intervention prices—the price at which an intervention agency in each country is obligated to buy a particular commodity.

Under the CAP, the Community also subsidizes the production of processed fruits and vegetables, most oilseeds, and a variety of other products. The cost of the CAP is shared among the member states under the third principle, common financing, using a mechanism called the European Agricultural Guidance and Guarantee Fund. One section of this fund finances market support expenditures such as intervention buying, storage costs and export subsidies. Another section finances internal programs aimed at improving the structure of agriculture.

We do not quarrel with the objectives of the common agricultural policy, but we do have problems with the way it is being implemented. These can be summarized in two basic concerns.

First, farm price support levels were set high in the beginning, and they have been kept high enough to encourage a continual increase in production in all member countries. In the major agricultural products no limit has ever been placed on the amount of production that would benefit from support.

Second, the CAP was implemented so as to completely insulate the European Community market from the rest of the world. There are no brakes on production, which is encouraged to rise even when the world market is depressed. Any resulting surpluses are moved into the world market with export subsidies, which puts the price-depressing burden of additional supplies on the world market rather than on the European Community Market. And the generation of surpluses is——

Mr. ANDERSON. Exacerbated.

Secretary LYNG. Well, you shouldn't put words like that in. When the Assistant Administrator of the Foreign Agricultural Service for International Programs, who is with me today puts these nice big words in my mouth, Mr. Chairman, the outcome is less than predictable.

Senator BOSCHWITZ. Well, Mr. Secretary, Mr. Anderson comes from Iona, Minn., and, having been the product of the Minnesota school system, you have got to expect that. [Laughter.]

Secretary LYNG. Then I will move on—by keeping prices high so that there is no inducement for European Community consumers to absorb any of the surpluses.

In short, our problems with the common agricultural policy stem primarily from too much protection encouraging too much production which is then exported through the use of subsidies. The system does not let market conditions influence either production or consumption.

This policy has hurt U.S. agricultural trade. It is true that U.S. farm exports to the Community have risen since the CAP was inaugurated, reaching a record $8.9 billion last calendar year. However, U.S. agricultural exports to the Community represent an increasingly smaller share of total U.S. agricultural exports. The European Community market accounted for one-fourth of the value of our total farm exports in 1975; this had declined to one-fifth by 1980. This has been the result of internal European Community policy, not basic economic forces.

The trade damage is substantial in grains, the largest category of U.S. farm exports. U.S. exports of grain products to the Community dropped in value from $2.2 billion in 1975 to $1.7 billion in 1980, and the tonnage declined from 15.6 million to 11.5 million tons.

Feed grains exports, mostly corn, declined from 13 million tons in 1975 to 9.4 million tons in 1980, while wheat exports fell from 2½ million tons to 1½ million.

The decline in corn exports reflects both an increase in European Community production and a declining rate of growth in feed grain use. Both are the result of the European Community's encouraging its own production at high prices, isolated from import competition by variable levies.

Soybeans and some other commodities, notably corn gluten feed, are not subject to the variable levy, and exports of these commodities to the European Community have more than offset the decline in exports of grains. Exports of soybeans, at about $4 billion annually, and corn gluten feed, worth $600 to $700 million, now represent more than half of all U.S. agricultural exports to the European Community.

Future access for these commodities is by no means assured. There has been almost a perennial threat to soybean access to the Community. The latest, a proposal for an internal tax on vegetable oils, was turned back when the European Commission laid the proposal aside in the face of strenuous U.S. objections.

The threat to nongrain feed ingredients, particularly corn gluten feed, remains. Certain voices in the European Community advocate unbinding the zero duty bound in the GATT, citing the growth in imports of corn gluten and fears that rising output of corn sweetener and ethanol will sharply increase imports.

We have pointed out that price is largely the reason for the increase. Corn gluten prices in the United States usually have run about 25 percent higher than domestic corn prices, whereas the price of corn gluten in the European Community has run as much as 20 percent below European Community corn prices due to the European Community's high price supports.

There are other problems of access, and these will be magnified with the accession of Greece this year and the expected addition of Spain and Portugal in the future. We are following the situation very closely and will protect U.S. trade interests, particularly as they relate to GATT.

The impact of European Community agricultural policies is becoming even more serious for U.S. trade interests in third country markets, with the European Community adopting an increasingly aggressive export policy, using subsidies to dispose of surplus production in the world market. The Subsidies Code negotiated in the Multilateral Trade Negotiations permits export subsidies on primary agricultural products, but not to the detriment of another country's markets.

Under the impact of subsidies, the European Community emerged as a net exporter of grain in 1980–81 for the first time in its history, a marked contrast with the 1960's, when the European Community imported a net total of approximately 20 million tons of grain per year.

These shipments have disrupted trading patterns and challenged market shares of traditional exporters, including the United States. The European Community's share of the world wheat trade in 1980–81 was about 15 percent. This compares with 11.7 percent the previous year and an average of 8 percent in the early 1970's.

The aggressive export subsidy practice has been extended to other commodities—poultry, sugar, and pasta, to name three. We are increasingly facing competition from European Community export subsidies in third country markets, and even in our own market, where we must protect U.S. producers from prices that are depressed on world markets as one consequence of the Community subsidies policies.

European Community exports of dairy products, for example, increased from 472,000 metric tons in 1976 to 1.4 million metric tons in 1980. Sugar exports have gone from 2.1 million tons in 1976–77 to 4.5 million tons in 1980–81. The European Community shipped over 600,000 tons of meat abroad in 1976; these same shipments totaled about 816,000 tons last year. In the process, the European Community has become the world's largest poultry exporter and second largest beef exporter.

As you might expect, the European Community policies are causing concern to agricultural interests in other countries. The Australians, for example, are worried about their trade in commodities such as beef, canned fruit, sugar, and wheat flour. They, along with Brazil, have taken GATT action against the rapid expansion of sugar production in the Community along with the European Community's policy of subsidized sugar exports.

The cost of the CAP is causing concern in the Community itself. Costs have risen from $7.7 billion in 1976 to $14.4 billion in 1980, and now represent about 60 percent of the European Community budget.

So, once again, the Community is talking about reform of the CAP. This is the sixth such proposal, and we are concerned that the present debate, like some of those that have taken place in the past, will not focus on the essential problem, despite responsible voices that are being raised in these discussions. They are urging that internal rather than external solutions be pursued.

Meanwhile, we are taking a number of actions to deal with the situation:

We are discussing our concerns directly with European Community officials at the highest possible levels to be sure they do not underestimate our intention to take corrective action. Secretary Block himself made the U.S. position in this regard very clear in meetings last May and June with officials of the European Community and the member states, and he will be doing the same tomorrow in a meeting with European Commission President Gaston

Thorn, along with Secretaries Haig and Baldrige and U.S. Trade Representative Brock.

We are seeking support from other major agricultural trading countries and will support them, in turn, in their efforts to press the Community on its trade policies.

We are taking several specific issues to the dispute settlement prodecures provided in the GATT and the Subsidies Code. Among the commodities involved are wheat flour, poultry, sugar, pasta, and citrus.

We are monitoring European Community actions, and as necessary we will identify other actions that we can take to counter new unfair practices by the Community either on our own or in cooperation with other countries.

I believe that the Community understands the U.S. position. We are willing and eager to cooperate in seeking equitable solutions to the trade issues between us, but, if this approach fails, we will do whatever is necessary to defend our trading rights.

That concludes my statement, Mr. Chairman. I will try to answer any questions you may have.

Senator BOSCHWITZ. Thank you, Mr. Secretary.

I note that my colleague, Senator Pryor, has come in during the course of your testimony.

Do you have any opening statement you wish to make?

Senator PRYOR. Mr. Chairman, I have no opening statement, but perhaps a little later I may have a few questions. Thank you.

Senator BOSCHWITZ. As Senator Hawkins very correctly pointed out, Mr. Secretary, and as you referred to in your testimony, Secretaries Haig, Block, Baldrige, and Trade Ambassador Brock, are now in Europe and will begin their discussions on these matters with the president of the commission tomorrow. It's not coincidental that we hold this hearing today, it is because of our concern here in the Senate with respect to those negotiations.

As you may know, I have very quickly circulated a letter among my colleagues to encourage them to do just what you were saying in your testimony, to take a firm stand in protecting our exports, that new barriers are not erected and that new difficulties do not get in the way of soybeans, corn, wheat, and other things. This is a letter that has 51 or 52 signatures, and I must tell you I didn't have a chance to really go after some of my Democratic colleagues; otherwise, I am sure that, instead of getting 51, I would have gotten 85, because almost without exception the Republican Members have signed it because I had an opportunity to talk to them as a group.

So when you discuss it with the Secretary, you can say that, really, because of the shortage of time the number of Senators was only 51 or 52 instead of 85.

Mr. Secretary, on page 2 of your testimony you talk about the price intervention and the payment by the Community for storage requirements. What kind of storage facilities do they have for their commodities?

Secretary LYNG. Specifically, I think that they are very much the same as ours on imports. They have very modern facilities for the handling of their commodities, and they handle them at least as well as we do.

Senator **Boschwitz**. I guess the question is, how sensitive are their storage facilities when they carry large quantities of the tonnage? Do they have to sell those commodities?

Secretary **Lyng**. They have not stocked as much grain, for example, as we have here. They have chosen the route of going between that grain or their commodities on the world market rather than in storage. For example, here in this country we would be carrying stocks in relation to grain, in relation to wheat production, which would be approximately somewhere close to 40 percent of the total of the output here in the United States. In the Community they would be carrying something in the neighborhood of 15 percent. And that is down from 2 years back in the midseventies when they were carrying maybe as much as 20 percent.

So, their production has gone up in this period, and they have not gone to the stocking policy that we have here in this country. They have stock, of course, but they have chosen the route of using the export subsidy to move those stocks onto the world market.

Senator **Boschwitz**. On page 3, Mr. Secretary, you referred to a continual increase in production in all member countries. I have not seen the figures, and I would be very interested in seeing the figures of the growth of the common market, or the European Community rather, of agricultural production. Do you have that available?

Secretary **Lyng**. Yes. I don't have it available here today, but we would be very pleased to submit it directly.

[The following material was subsequently received by the committee:]

The growth in EC agricultural production has been very impressive since land resources are limited. We estimate EC agricultural production in 1981 to be 20 percent above the 1969–71 average. (U.S. production rose 32 percent in the same period.)

This increase in EC production is troublesome because it is large in absolute terms; it is subsidized, and most of the increase is disposed of on world markets. Wheat is a prime example. In 1970–71 EC production totaled 37 million tons; there were net imports of 6 million tons. Consumption within the EC was 43 million tons. In 1980–81 production was 55 million tons, an increase or 49 percent, or 18 million tons. However, internal consumption rose only 1 million tons; stocks were increased slightly, and the EC became a net exporter of 11 million tons. These net figures in fact reflect a 2 million ton drop in imports and a 15 million ton (265 percent) increase in exports.

EC–10 SELF–SUFFICIENCY IN SPECIFIED PRODUCTS PERCENT OF TOTAL SUFFICIENCY

	Wheat	Corn	Total coarse grains	Rice	Beef and veal	Cheese	Nonfat dry milk	Almonds	Tobacco	Sugar
1961 to 1962	79	42	72	73	92.5			60	33	88
1962 to 1963	95	33	74	71	90.7			31	42	74
1963 to 1964	80	41	77	65	87.4	96.4	81.9	46	46	80
1964 to 1965	93	35	75	67	88.2	98.5	105.1	47	41	92
1965 to 1966	94	35	73	52	89.2	100.5	113.9	48	35	83
1966 to 1967	85	40	75	67	92.1	99.3	129.9	48	41	81
1967 to 1968	98	38	80	82	92.6	98.3	135.2	48	36	85
1968 to 1969	96	46	83	68	90.2	97.6	111.2	48	34	82
1969 to 1970	88	51	82	94	91.7	96.4	99.6	36	35	90
1970 to 1971	86	56	77	85	107.4	99.6	115.5	44	33	81
1971 to 1972	98	56	84	89	87.2	102.8	120.8	24	36	99
1972 to 1973	97	53	84	71	87.0	99.6	128.1	21	37	94
1973 to 1974	103	59	83	95	102.4	104.9	136.9	15	33	90

EC-10 SELF-SUFFICIENCY IN SPECIFIED PRODUCTS PERCENT OF TOTAL SUFFICIENCY—Continued

	Wheat	Corn	Total coarse grains	Rice	Beef and veal	Cheese	Nonfat dry milk	Almonds	Tobacco	Sugar
1974 to 1975	111	53	83	104	101.8	104.4	176.1	25	43	79
1975 to 1976	100	51	78	85	99.5	105.6	107.9	25	46	115
1976 to 1977	102	40	70	62	95.6	104.8	112.9	21	42	100
1977 to 1978	97	55	86	57	95.1	104.8	107.3	24	42	126
1978 to 1979	118	56	88	76	100.0	106.5	109.2	23	47	123
1979 to 1980	113	60	87	92	118.7	107.7	138.6	09	44	131
1980 to 1981	126	63	90	78	103.3	109.6	141.4	22	42	129

Secretary LYNG. The growth has been—I hesitate to say spectacular, but it has certainly been impressive.

Senator BOSCHWITZ. Well, at what level do they subsidize wheat? To $7½, I believe.

Secretary LYNG. I think it's something like that.

Mr. ANDERSON. Yes. Their support, or actually the threshold price, is the basis for forming the levy of the European Community. I think last year it would be closer to about $7 a bushel, against, say, the delivery price of the U.S. wheat that would be somewhere in the neighborhood of $4.50 or so a bushel, Rotterdam. There is a difference of $2½ a bushel that is skimmed off in the form of a levy. Of course, with that $7-a-bushel protection, it can afford substantial incentives to producers in the Community to produce more wheat.

Senator BOSCHWITZ. I suppose we might even produce a bushel or two more, Mr. Secretary, if you were to support wheat at $7. Have you ever considered that? [Laughter.]

Secretary LYNG. Mr. Chairman, as you well know, we have spent many a day and many an hour jointly considering such matters this year. We will take some action on it later today, but it's far from $7.

Senator BOSCHWITZ. I note that you also stated there are no brakes on production, which encouraged more production. Have they ever discussed putting a brake on production over there?

Secretary LYNG. Yes. I think they've discussed modifications in the common agricultural policy, and in my testimony I pointed out that discussions like that are going on now. But, really, they haven't taken any action. There have been discussions, and some of the member countries feel more strongly about this than others, that they don't get greedy internally in the long-term respect. But in the meantime, the policy is still a rich harvest.

Mr. ANDERSON. I think it is fair to mention they have talked about what they call coresponsibility. And they have a coresponsibility levy on their milk production. That means that the producer is paying a small levy on production over a certain amount delivered. But it has not been very effective.

They also have a coresponsibility, which was accepted last year, in sugar, but at the same time that they taxed the producer a couple of percent, they raised the sugar price by about 8 percent; so it really didn't have any effect on the production.

Senator Boschwitz. You note on page 4 that the latest proposal that they have made is for an internal tax on vegetable oils. Is this in anticipation of Spain and Portugal, eventually? Would you describe what that means, the internal tax on vegetable oils, what the passage of such a tax would mean to us?

Secretary Lyng. I'll let Mr. Anderson answer.

Senator Boschwitz. Is it related at all to soybean oils? Is it related to the possibility of Spain and Portugal's oil producers coming into the market?

Mr. Anderson. Yes, I think it is related, and it is being discussed in relation to the Spanish entry into the market. There is a substantial olive oil surplus in Spain, and the tax as it was initially proposed by the Community would be a tax across-the-board on all vegetable and marine oils, both imported and domestically produced. We have a GATT binding, as you know, on our soybeans going into the Community at zero duty, and we feel that such a tax wouldn't be fair and, would restrict that binding. And they see the vegetable oil tax as a means of financing the olive oil surplus problem, in Spain, when Spain becomes a member of the EC. And instead of facing the issue of surplus olive oil production, we felt they were going to resolve the issue, at our expense, by taxing soybeans and other vegetable oils.

Senator Boschwitz. I noted on page 6 you talked about the cost of the CAP that is causing concern in the Community. That cost that you referred to there, $14.4 billion, is the cost to the Community, but internally does each country also have a cost for the program, which I believe brings the cost subsidy to $37 to $40 billion?

Secretary Lyng. I have heard figures like that, and I think they are accurate. As a matter of fact, I think the cost of the CAP in 1981—this $14.4 billion is up considerably.

Senator Boschwitz. To $16 or $17 billion.

Secretary Lyng. And possibly $18 billion. You were correct in your opening statement, Mr. Chairman, that this is a great deal larger than what we are doing in the United States.

Senator Boschwitz. The cost of it is really an economic problem.

Secretary Lyng. If I might, Mr. Chairman, in addition to this cost, the cost to the consumers in terms of the price that they pay is simply staggering. This is their own business, and they are entitled to do what they wish. We can't be critical of them on that, but you have to wonder at the actual difference on this between the European Community and the United States in that cost.

Senator Pryor. Mr. Chairman, at this point may I ask a question or two? If you have further questions, please feel free, but it's sort of in this area.

Senator Boschwitz. No, please go ahead.

Senator Pryor. Back, Mr. Secretary, to page 4. We'll use soybeans, just as an example, because that is a subject near to my heart.

When the European Community threatens, let's say a tariff on soybeans or a tax on vegetable oils, and then let's assume that we protest. What happens? What are the nuts and bolts of how this begins to work its way out? What are the procedural aspects?

Secretary Lyng. I think what happens, we have, as you know, agricultural counselors and agricultural attachés in most, if not all, of the capitals of the 10 member nations, and we have representatives at the U.S. mission in Brussels, and we are constantly meeting at one level or another. Mr. Anderson, who is with me, served as our agricultural counselor in Bonn and New Zealand. So we hear when these things are starting, and we make informal comments and suggestions and protests. And I think in this case it moved a little further than that.

Finally, if I recall, and Bud, correct me if I'm wrong, the Community met and said, "My goodness, don't get so excited. We really weren't very seriously considering that." But it was our feeling, based on all the reports we had, that they were seriously working for this. They do have a problem, as Mr. Anderson has pointed out, that they have not really faced up to. And as long as they have that real concern that this might be acceptable, they might consider it.

Senator PRYOR. It's almost as bad as the drought or the rains or the freezes that Senator Hawkins has to deal with on the citrus crop. But with all of the elements that we have to face, and then add to it the magnitude of the uncertainty in the agricultural community about what to expect on trade matters, I think uncertainty has some of the most damaging effects upon American agriculture today.

I have never fully understood these procedures, but I think it would certainly mean a great deal to the American farmer to know that this country is aggressively—and I underline "aggressively"—aggressively pursuing stability in this area. Because the uncertainty, I think, is very, very detrimental. I don't think there is any question about that.

Secretary LYNG. No, there is no question. We certainly concur, and I think our actions will speak more strongly than our words through the fact that Secretary Block is there today for that meeting tomorrow. I think he is just about arriving, as a matter of fact.

Senator PRYOR. I wondered why he didn't return my phone call yesterday. Now I know he's on a good mission. He's on important work, so we'll forgive him for that.

Secretary LYNG. Senator, he was here, and he knows about this. And the issue is being handled at whatever extent we can do, but he simply didn't have time.

Senator PRYOR. I understand.

Secretary LYNG. He left just after 8, and he's been traveling since then.

Senator BOSCHWITZ. May I say, Senator, that it would appear that there is a great deal more aggressiveness now in handling these problems than there has been in the past. And I do agree with you that there is more aggressiveness now, under this administration, than there was in preceding administrations, Republican or Democrat. I agree with you and spur on the administration to take a stand that is, indeed, very tough minded.

Senator PRYOR. All right. May I proceed with another question or two, Mr. Chairman? I would be glad to continue this later in the hearing.

Senator BOSCHWITZ. Fine.

Senator PRYOR. All right, sir.

Senator BOSCHWITZ. If I may add to that, Secretaries Block, Haig, Baldrige, and the Trade Ambassador are over there in a rather unusual sign and display of unanimity. Very often agricultural policy and foreign policy seem to have different directions, but they do now have a common direction in the United States concerning these problems. It's very good, indeed.

Senator PRYOR. Well, I'm glad they're over there.

Senator BOSCHWITZ. Yes. I am, too.

Senator PRYOR. Mr. Secretary, the figures I have, and I hope they are somewhat accurate, show that in 1967 the European Community subsidized their products exported to us to the tune of about $3 million. The figures that I have show that in 1980 they subsidized these same products to the tune of about $100 million. Now, I'm not certain as to how the classification of subsidies or the definition of subsidies was arrived at, but it's a figure and a trend that concerns me.

I wonder, with all of the agreements and treaties, GATT, and so forth, if the situation is going to continue to show this large percentage of subsidy for the European products?

Secretary LYNG. That's our concern, and that's one of the top concerns that we have, Senator, this maintenance of high prices to their producers without any efforts to control the amount produced, and then the very large subsidies in order to dispose of those products.

Senator PRYOR. I'm sorry to interrupt, Senator, but I was advised that that figure I gave was just for poultry. It is not the other products, but it is just for poultry products.

Secretary LYNG. They are the world's largest exporters of poultry today, and yet their domestic production prices are much higher than our prices. They could not achieve that position without export subsidies. Of course, the export subsidies on products coming to the United States are really not the major problem for U.S. agriculture. The figures you quoted are relatively restrained in comparison to the total exports. It's the impact that their export subsidies have on the third nation markets combined with the impact that those subsidies have on world markets. Because we have asked under our agricultural policies in this Nation for our producers to depend upon the marketplace and not upon Government subsidies, we depend very heavily upon exports. Roughly 2 out of every 5 acres of agricultural production in this country moves into exports. Yet, the troublesome thing is that this policy of the European Community flies right in the face of what we're trying to do with our own producers.

Our producers feel this very strongly. And I think in this matter we have, no question about it, broad bipartisan support for action.

Senator PRYOR. Mr. Secretary, one or two more quick questions, now. In this area, and as part of the administration's effort, it is my understanding that the U.S. Trade Representative has recently, I think in September, accepted at least four petitions from U.S. farm organizations that challenge these export subsidies that we have just been discussing.

These petitions state and I think the farm groups that submitted these petitions to our Trade Representative feel, that this is a clear challenge and an opportunity to demonstrate the commitment and the seriousness of the United States in protecting open access to overseas markets.

Now I understand, once again, a procedural point, that the Trade Representative has 7 months after a petition is submitted and accepted to make a decision as to what route to take or what avenue to approach. And I'm just hoping—and I'm speaking for these organizations this morning—that it will be handled in a very expeditious manner and also in a manner that demonstrates our commitment.

Finally, Mr. Secretary, what I was calling Secretary Block about yesterday, and this relates once again to poultry, at this moment on the dock in Alexandria, Egypt, are 5,000 tons—not pounds, but tons—of chickens. That's a lot of chickens. They won't let them in the country for some reason. We haven't been able to find out why. I did discuss this with the Egyptian Ambassador yesterday, and he's personally looking into it. We have also talked to the State Department officials, but evidently there is a bureaucratic entanglement between the health department and the supply minister, or someone of that sort. And chickens won't last forever. That's not exactly what I was going to say. [Laughter.]

I would like to say, Mr. Secretary, time is of the essence, and we hope that your people will be in contact with the appropriate officials because this represents—well, let's say there are 10 million tons of chickens that I think were produced in three States. One chicken processor called me yesterday and said that if they did not allow these into the particular market there in Egypt, for which all agreements had been met as to prices, et cetera, that it probably meant whether or not his firm would survive or fail. I just wanted to bring that to your attention and hope that you would consider this as a matter of extreme emergency and to put that in the record at this point.

Secretary LYNG. Yes, we are very much concerned about it. I hadn't heard about it until yesterday, but our people had heard about it earlier than that from the shippers. Perhaps Mr. Anderson could bring me up to date. I know that our agricultural counselor in Cairo has been working on this for some time, but, as you say, it seems to be one of those knotty bureaucratic problems. Bud, can you add to that?

Senator PRYOR. Live chickens.

Secretary LYNG. Fortunately.

Mr. ANDERSON. We have had problems in the past, also, with poultry going into Egypt. It was over the salmonella certification on the health certificate. We were able to work that out. We have contacted our agricultural counselor in Egypt and we've given it top priority. We are trying to get to the bottom of it, but I haven't had a report since last night as to just exactly where we are.

Senator PRYOR. I would certainly appreciate being informed about it as soon as possible.

Mr. ANDERSON. Yes, sir. We will get that information to you as soon as we can.

Senator PRYOR. Thank you.

Senator HAWKINS. Mr. Secretary, do you have any new information on subsidies of farm products from the representatives of these nations?

Secretary Lyng. No. We have received reports of subsidies of even their income tax laws sometimes before. But we are talking about that in this instance. That would complicate the issue far beyond what we are trying to achieve right now.

Senator Hawkins. Sure. They don't like to talk about it at all.

Secretary Lyng. But, Senator, if we could just get some massive improvement in the direct export subsidies, it would be a great help. And, having accomplished that, we will let them take a further approach.

Senator Hawkins. We see progress, of course. What effect does the Economic Community's sugar policy have on world markets and on the domestic sugar in this country?

Secretary Lyng. Without going into great detail, the European Community's export policies on sugar this year were devastating to the world sugar market and created all kinds of complications for sugar producers everywhere, particularly the exporting nations, because the world market has been depressed well below the cost of production, and I think it has been the primary cause of the demands by U.S. sugar producers for additional support and protection. I think the European Community's sugar policies have literally been devasting.

Senator Hawkins. As I understand it, it's currently at 27 cents a pound.

Secretary Lyng. Mr. Anderson said it's about that.

Senator Hawkins. And the U.S. competitors, of course, can't compete at that price.

As a Californian, Secretary Lyng, you are no doubt aware of the difficulty that U.S. citrus products have always had in gaining access into the European markets. With the prospect of Spain entering the EC shortly—and they are a citrus-producing country, as you are aware of—for Florida's frozen orange concentrate, which I am speaking of right now, it means that the prospects for that entering the market would be even less in the future. It seems that we could move rapidly before Spain comes in, making some progress in breaking down that barrier there. I wondered if you knew of any action that you have taken or that Secretary Block plans to take in getting access into the European Community, mainly for frozen orange concentrate?

Secretary Lyng. On that I will defer to Mr. Anderson.

Mr. Anderson. I will make some comments, and maybe Mr. deKieffer would like to comment, as well.

There have been submitted complaints on citrus going back to 1976 in relation to the Community's preference system for lowering the duty for a number of Mediterranean countries' access into the European Community, and I believe the industry objected to that preference system. That petition was sort of laid aside in the MTN, multilateral trade negotiations, in the hopes that we could work something out with the Community on the reduction of duties for citrus. We did get a reduction of duty on grapefruit. We have since taken up this issue again, and it has been agreed that we would again pursue this citrus issue with the Community.

Mr. deKieffer. Senator, I am Don deKieffer. I am General Counsel of the U.S. Trade Representative's Office. We will be consulting with the Europeans in the very early part of next year in regard to this. Mr. Anderson is correct, it was started back in 1976, and we believe that 5 years is about 4 years too long.

Senator HAWKINS. Are any of you aware of the attempts of the U.S. citrus producers to enter into a joint venture with Italy on concentrates—citrus, citrus products?

Mr. ANDERSON. Yes. I am aware of an effort by U.S. industry to work with the Italians to produce a blended orange juice. It was thought that by blending some Florida and American citrus juice with a type of blood or bland orange juice that an acceptable product could be produced. I know it's been pursued off and on for quite some time, but I don't think we've been able to make much progress with the Italians. As soon as one government gets anyplace, another one leaves. So we have had some difficulty there. But we were involved, our agricultural counselors have been involved, and when I was in Bonn, Germany, I was involved some in it; but I don't think any progress has been made to date. I think it is still being discussed.

Senator HAWKINS. We are still merely in the talking stage?

Mr. ANDERSON. Yes. Some of the interest seems to be—the Italians can't really make up their mind. I think, in exchange, we wanted access into the Italian market for certain of the concentrates, and that's been the hangup. They would like to go the other way, with the blending of the blood orange, but we want better access for our concentrates.

Senator HAWKINS. Thank you. I appreciate your help.

Senator BOSCHWITZ. I have one final question, Mr. Secretary, and I would also like to submit several questions that Senator Zorinsky has. I know he decided to get up on the floor because the farm bill conference report is going to hit the floor of the Senate any second. I would like to submit these for you and ask that you respond to those questions. The record will be kept open for 48 hours in the event there are further questions to be submitted.

[The questions from Senator Zorinsky and Secretary Lyng's answers thereto follow:]

Question. Would you agree that an international "free market" in agricultural commerce is merely a "textbook" premise or idea. For example, would you comment on the practice of some countries in the Common Market to subsidize poultry meat into export?

Answer. Yes, I do agree that in many respects an international "free market" in agricultural trade is more of a "textbook" premise than a reality. This is particularly true of the European Economic Community where U.S. agricultural exports face tariff and non-tariff trade barriers as well as unjustified and unfair competition in third country markets as a result of EC government-funded export subsidies.

U.S. poultry exports, for example, have been pre-empted in certain world markets as a result of EC export subsidies. In the Middle East, for instance, the U.S. share of the market for whole chickens has fallen from 95 percent in 1964 to less than 20 percent in 1980. The EC market share for the same time period increased from 4 percent to 82 percent.

The Office of the U.S. Trade Representative recently accepted a petition filed by several U.S. poultry industry associations alleging, among other things, that EC exporters have achieved, as a direct result of substantial export subsidies bestowed by the EC, more than an equitable share of the world export trade in whole chickens.

The U.S. poultry industry is being supported by the USDA in their efforts to seek relief from this unfair competition by the EC under Section 301 of the Trade Act of 1974.

Question. Concerning EC subsidies on wheat exports, what kind of subsidies are they using? Can you cite the dollar amount of such subsidies?

Answer. All EC grain exports are subsidized because internal EC grain prices are higher than world grain prices. Export restitutions on wheat have ranged from $75 to $50 per ton since June 1981 depending on the strength of the U.S. dollar, world market prices and internal EC prices, and supply-demand conditions.

Most EC wheat exports move via a weekly tender system which involves weekly decisions by the Management Committee for Grain (representatives of the member countries and the Commission) to either accept or reject offers to export. Upon acceptance, the Committee then determines the maximum export refund or restitution to accompany all export tenders. That maximum acceptable restitution depends on such factors as: (a) internal EC grain prices; (b) the most advantageous quotations in importing countries; and (c) the economic aspects of exportation, i.e., cost and availability of storage facilities, proximity to next harvest, political factors, etc.

Major destinations for basic grains and flour have been divided into seven geographic zones, which allows for freight differences and fluctuations, and not coincidentially, also enables the Commission to both monitor and control the flow of grain to any individual zone.

Question. We are paying "OPEC" cartel prices for imported oil, but sell these same countries our grain and other farm products at "bargain basement" clearance prices.

What is the logic of ignorning the need for getting prices on commodity exports up to the cost of production?

Answer. This Administation is committed to revitalizing our economy through deregulation and use of the free market system. Suggestions that our export prices for agricultural commodities be raised to some artificial level, or pegged to the cost of production, run counter to the Administration's philosophy and even more imporantly, counter to the interests of this country's farmers.

Although the United States is easily the single largest exporter of grain, any assumption that we control the world's food supply, and therefore price, will not stand up to examination. Even joining a cartel with other major grain exporters would not give us the control over supplies that the OPEC nations have over oil. Grains can be grown in over 100 countries and our production of crops is only a small percentage of the world total.

Our historical importance in agricultural trade is based upon our ability to be a reliable supplier of quality goods at competitive, market prices. Were the U.S. Government to attempt to increase grain export prices through regulation, purchasers would be encouraged to buy their grain elsewhere, produce more of their own, switch to substitute foods, or restrain consumption. Thus, artificially higher prices would lead to a loss of markets and a probable net reduction in agricultural export revenues.

Finally, we would not want to jeopardize American agriculture or the U.S. economy—both of which are heavily dependent on the maintenance and expansion of exports. We feel that the U.S. system of grain marketing—which is handled by the private sector—offers a greater advantage to the U.S. farmer both in terms of volume and income potential. In the current year, roughly 40 percent of all of the grain produced on American farms will move into export. Agricultural export earnings for the past fiscal year totaled nearly $44 billion.

Question. How would you respond to the criticism of both the administrations of Presidents Carter and Reagan that farm trade policy has been preoccupied with access and volume and a deliberate policy of low farm commodity prices below cost of production?

Answer. Farm support prices in the United States have been set to enable U.S. products to be sold here at home or abroad competitively without a subsidy at the taxpayers' expense. In some cases these price levels may not be profitable, and higher target prices have been provided as a basis for an additioanl payment to producers. Such payments are designed to supplement income and not to interfere with the ability of U.S. producers and traders to compete in the market place.

Senator BOSCHWITZ. Mr. Secretary, the Europeans have historically exported, as you stated in your testimony, approximately 7 million metric tons of grain to the world market, and that has risen to 14 million metric tons. That has risen, due to the subsidization not only of production but also exports. What kind of an impact has that had? Have you made any studies on what kind of an impact that has had on American producers and on American price systems?

Secretary LYNG. Have we done a precise study on that, Mr. Anderson?

Mr. ANDERSON. Yes. Actually, the figures you are referring to are 7 million of wheat. The Community is exporting about 14 million metric tons of wheat and wheat flour equivalent. It's up rather sharply from what they were doing in the midseventies, when their average would be closer to 7 or 8 million metric tons.

We've looked at the market and tried to assess what would happen to U.S. wheat prices if the Community was exporting, say, a historical average of 7 million tons instead of 14 million.

Senator BOSCHWITZ. Which they probably would be doing in the event they were not following these subsidization practices.

Mr. ANDERSON. Yes. And it shows that wheat prices in 1981 would have gone up by 50 cents a bushel here in the United States, and our wheat export tonnage probably would be increased by about 4 million metric tons, and that U.S. producers would have had a net revenue increase of nearly $1.7 billion.

Senator BOSCHWITZ. That's quite remarkable. Do you feel that the price, according to the Michigan State studies, would have risen 50 cents a bushel? That's an enormous sum on a 3-billion-bushel crop. What impact would that have had? It has also cost the Government through the deficiency payments, but what impact would that have had on the cost without your deficiency payments?

Mr. ANDERSON. Yes. We are currently right in the process of mailing out deficiency payments for the 1981 wheat crop in the area of $400 million. That's at the rate of 15 cents a bushel. So, anything like 50 cents a bushel would have had a material impact on the expenditures of the Government.

Senator BOSCHWITZ. It would have made the deficiency payments less, though?

Mr. ANDERSON. That's right. They would not have been necessary.

Senator BOSCHWITZ. Right.

Well, I notice that my colleague Senator Jepsen has arrived. Are you going to make a statement?

Senator JEPSEN. No. I was just listening.

Secretary LYNG. Well, that's why I came. I wanted to hear Senator Jepsen's statement. [Laughter.]

Senator JEPSEN. This is so key and so important, I just wanted to give you a little reinforcement and show you my appreciation by stopping in from my very busy schedule.

Senator BOSCHWITZ. Senator, we appreciate your stopping in, and I know the importance that this matter is to you. We have had some most productive testimony from the Deputy Secretary of Agriculture, Dick Lyng, and also from Bud Anderson, who is the Assistant Director of FAS.

Senator PRYOR. Mr. Chairman, before we adjourn, I keep interrupting you, and I apologize, but may I ask one more question? This is for my own educational purpose.

In the agriculture bill that we are probably going to pass today, in that legislation are we establishing some new export offices under USDA around the world to assist in the exportation of American farm products or not? Is that section included in this version of the bill, or has that already been passed?

Secretary **Lyng**. We have the authority to do that. It's a question of appropriations through the authorization bill. In the priorities that the Secretary of Agriculture and the administration adopted early on in this administration, we gave a high priority to those efforts to help expand exports. I'm not sure that just opening up offices is the thing that it will lead to; we may have substantially enough offices. But we are working with something like 50 cooperators of various commoditity groups, and we are trying to establish programs in those countries where the likelihood of the success is the greatest. We are constantly on the move in this regard. But I assure you that this will continue to be one of our high-priority items.

Senator **Pryor**. I think under the legislation that we will consider today, the legislation would give USDA discretionary power to formulate its standby export subsidy program, which could be used, if found necessary by the President, to offset subsidies paid by other countries. I don't know where I got the information that we were actually establishing new offices, but I don't think it can be given a higher priority—this whole area.

Senator **Boschwitz**. May I comment?

Senator **Pryor**. Yes.

Senator **Boschwitz**. This is, Senator, the first 4-year agricultural act that has its own separate foreign agricultural policy section and a title for that. We, indeed, are encouraging the Department to expand the offices overseas. The Secretary correctly points out that the cooperator groups have been very effective and hopefully will be spurred on to greater action. We have given, I believe, in the appropriations measures, some additional market development moneys that could certainly be construed to be used in this area.

Secretary **Lyng**. Yes; that's correct, and we will await with some eagerness the outcome of the continuing resolution discussions in the next few days. But our requests to the Congress included sufficient funds to maintain a vigorous program.

Senator **Pryor**. Mr. Chairman, I would like to commend you for holding this hearing. I think it's very timely, and I appreciate it very much.

Senator **Boschwitz**. Thank you, Senator. Thank you very much, Mr. Secretary and Mr. Anderson.

Our next witnesses are Donald deKieffer, General Counsel of the Office of the U.S. Trade Representative and Suzanne Early of the Office of the U.S. Trade Representative and Deputy Assistant to the U.S. Trade Representative for Agricultural Affairs and Commodity Policy.

STATEMENT OF DONALD E. deKIEFFER, GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY SUZANNE EARLY, DEPUTY ASSISTANT FOR AGRICULTURAL AFFAIRS AND COMMODITY POLICY, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. **deKieffer**. Thank you very much, Mr. Chairman. Mr. Lyng's testimony was so extensive that I would like to summarize the comments that I have without reiterating some of the points that he made. I would, however, request that my entire statement be entered in the record.

Senator BOSCHWITZ. Without objection, that will be done.[1]

Mr. DEKIEFFER. Thank you, Mr. Chairman.

Mr. Chairman, I am particularly pleased to be here with you today to discuss our agricultural trade relations with the European Community. As you are aware, Ambassador Brock is currently in Europe discussing these very issues with the European Community.

The Community is our largest export market for agricultural products, taking about 20 percent of the value of our exports in 1980. The nearest competition is Japan, with roughly 5 percent of U.S. exports going to that market. There is an adage that says you should always take care of your best customers.

Senator BOSCHWITZ. Pardon me, Mr. deKieffer.

Mr. DEKIEFFER. Yes.

Senator BOSCHWITZ. What are the total agricultural exports to Japan? I believe they are more than 5 percent.

Ms. EARLY. About 7 or 8 percent.

Senator BOSCHWITZ. What is the total value of the agricultural exports to Japan?

Mr. DEKIEFFER. It's about $7 million.

Senator BOSCHWITZ. That's closer to 16 percent.

Ms. EARLY. No; on $46 billion, not $46 million.

Mr. DEKIEFFER. I think there's $43½ billion for agricultural exports and $7 billion for Japan.

Senator BOSCHWITZ. So that's 16 or 17 percent. Pardon me for interrupting you.

Mr. DEKIEFFER. We believe that the trade policies of the Community are the ones, however, that are causing us the most concern. Perhaps our emphasis on trade this year is heavier than in the past because of our own lowering of the safety net for agricultural producers in this time of economic austerity. Exports today provide about 25 percent of the farmers' cash receipts, and the Government provides only about 5 percent.

The problem that we face in the European Community is basically the high level of protection imposed by the community on agricultural imports. In the Dillon Round of trade negotiations, the European Community agreed to a zero tariff finding, for example, on soybean imports. Since then, U.S. exports to the European Community have grown from $75 million in 1958 to $4 billion in 1980. The EC has threatened a number of times to impose duties on soybean imports in order to reduce their dairy surpluses. They rationalize that making soybean imports, for example, more expensive will cut down on the use of protein in dairy rations, reduce milk yields, and curb output. Last year, a new reason for restricting soybean imports was found, and as the Secretary mentioned a moment ago, we believe that that problem has at least been temporarily postponed.

There are, however, a number of other issues that have already been discussed, and we will work very closely with the Department of Agriculture to resolve these. Market access for soybeans and corn and wheat, which were mentioned previously, illustrate only part of our concern with the European Community's agricultural policies. The other part is subsidized exports. U.S. export industries have complained about the European Community's subsidy practices in third country markets for years. Under the GATT Subsidies Code, which entered into force on January 1, 1980, it's a violation of the Code if the subsidizing country displaces exports of another country or materially undercuts the prices of other exporting countries.

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[1] See p. 87 for the prepared statement of Mr. deKieffer

We have, at the moment, accepted four cases under section 301 of the 1974 Trade Act alleging violations of the GATT Subsidies Code by the European Community. The cases are wheat flour, sugar, poultry, and pasta.

We held consultations with the European Community on their subsidy practices on wheat flour in November, and we will hold additional consultations on conciliation on Monday of next week in Geneva.

On sugar, poultry, and pasta, we requested consultations with the Community, but none have yet been held. As I mentioned a moment ago, however, they are scheduled to take place in the immediate future.

Senator HAWKINS. Wasn't there a complaint on citrus?

Mr. DEKIEFFER. Yes, there was. That's not a subsidy question, though.

Senator HAWKINS. Thank you.

Mr. DEKIEFFER. Last month, the European Commissioner for Agriculture, Dalsager, was in the United States meeting with various administration officials. One purpose of this visit was to explain to us the initiatives the Commission was proposing to reform the CAP. The Commission proposed to the EC council members that producer coresponsibility that Mr. Anderson mentioned be introduced or strengthened for most agricultural products. Production targets would be set and when these are exceeded, the level of support would begin to diminish.

The Commission has proposed that the gap between EC and U.S. grain support prices be progressively reduced by 1988. EC production targets are to take into consideration export objectives, which have not been precisely defined, but basically amount to a commitment to maintain the EC share of world markets reached in recent years.

The Commission also proposed a common export policy which would use a wider range of mechanism in the export field, for example, long-term arrangements, export credits, and other mechanisms.

While we believe the Commission's idea of moving EC price supports to U.S. levels would be an important step in the right direction, other elements of the proposals appear to cast doubt upon the likelihood of achieving this objective. To date, the EC member countries have reached no agreement on these proposals, and their future is quite uncertain.

At this point, I would like to defer to you, Mr. Chairman, and attempt to answer any questions you may have, particularly with regard to those areas for which we have direct responsibility either in section 301 or in the actions that are currently being taken under the Subsidies Code, the GATT, or under other U.S. laws that fall within our field.

Senator Boschwitz. Let me ask just a couple of questions, then I will refer you to Senator Hawkins.

You say, "While we believe the Commission's idea of moving the EC support prices toward U.S. levels." Is that a realistic hope? I note in the statistics that European farmers number 22.4 million, the people living on the farms, the agricultural labor force. That number is somewhat less than 4 million over here. They must have, with their numbers and the results they have been able to obtain, considerable political zip, and apparently they also act in a somewhat more united fashion than the farmers do over here. But is it realistic that they will move support prices toward U.S. levels?

Mr. deKieffer. Mr. Chairman, we certainly share your skepticism, based upon political realities. There are economic realities that the European Community is facing as well. One of those economic realities is the fact that their entire agricultural subsidy programs are becoming an enormous burden to not only the member states but to the Commission itself. At some point, something is going to have to give. I have heard over a period of years people repeating that, saying they can't pay any more, they can't pay any more. I'm not sure exactly when they are going to reach that point, but it is inevitable that the growth rate in the program today cannot continue indefinitely.

But we do, indeed, share your skepticism that this tentative motion in this direction is going to continue with any great speed. Therefore, we believe that it is absolutely essential, and I think that this administration has demonstrated its concern by its rather forceful action in the area of taking the U.S. farmers' side in many of these cases that have been brought.

Senator Boschwitz. Trade costs include many items beyond agricultural commodities, but we are principally concerned with the latter. I'm very pleased that the administration is taking a more tough-minded approach to this whole thing.

My second question is, Would you please describe how these agricultural subsidies work in practice? How the Europeans subsidize their exports and how that practice works?

Mr. deKieffer. Well, Mr. Chairman, it works in different ways for different commodities. The Europeans tend to look at almost anything you can put in your mouth as a primary product. In other words, if you can eat it, it's a primary product. The reason I draw that distinction is because the Subsidies Code that we all signed, along with the Europeans, draws a fundamental distinction between primary—that is, agricultural products—and manufactured products.

Let me give you an example. In the case of poultry, which has already been a subject, the subsidies are on the amount of feed that chickens eat. In the case of pasta, there is a subsidy on Durham wheat that goes into the pasta. They also have subsidies on grain that goes into Scotch whisky. Scotch whisky is effectively subsidized.

So what they do is generally subsidize the elements that go into the production of these. They also have some export subsidies as well, direct export subsidies. But you get into some almost eclectic conversations with our European allies when they contend, for example, that their entire tax system, which is basically a VAT tax system, does not have the effect of a subsidy because there is no tax component on exports of any commodity from the European Community, because taxes are remitted upon exportation.

The GATT Subsidies Code acknowledges that argument, and, as a matter of fact, basically it says that there is no export subsidy for the mere remission of VAT taxes. The Community argues that such things as pasta are not processed products but are agricultural products. We, obviously, have a different view.

The same is true in such things as wheat flour, for which we have another case currently pending. The types of subsidization offered by the Europeans and some of our other trading partners are as varied as the mind of man will allow. I have only mentioned two or three of the ways that they do it, and they contend that they can do it legally. But we obviously disagree with their analysis, and that's the reason we have decided to bring these cases.

Senator **Boschwitz**. Would you also explain how the subsidy operates in the case of wheat. Is the subsidy given to the trade department and is it sold at less than the world price level?

Mr. **deKieffer**. I think I would like to defer to Mr. Anderson. We don't have a case on wheat; we have a case on wheat flour. But, if you don't mind, Senator, I would like to have Mr. Anderson answer that.

Senator **Boschwitz**. Certainly.

Mr. **Anderson**. The way it is given, there is a minimum import price established in the Community at around $7-a-bushel price that we talked about. We deliver, say wheat, to Rotterdam, European ports; it may be somewhere in the neighborhood of $4.50, or thereabouts. Now, this difference of $2.50 a bushel is collected in the form of a levy. It is rebated, then, back in the form of an export subsidy so that European exporters can be competitive on the world market. European exports apply to the European Community for a license to export wheat. They can prefix; they know what the subsidy is at the particular time, and that means the difference between the world market price and the higher receipt price. They can fix the subsidy for a period ahead, I believe, up to 6 months in grains, and the exporter then can go out on that basis and make contracts being assured of a fixed export subsidy rate when he goes to importing countries or to customers in importing countries and offers that wheat upon the world market. He offers it in relation to that subsidy rate that he has fixed.

Senator **Boschwitz**. Does that allowance come in and undo our prices? I'm not sure how that works.

Mr. **Anderson**. Yes. They produce a different type of wheat in the Community than we do. It's a softer wheat; it has lower protein; it has certain characteristics which make it good for things like cookies, crackers, and products like that. It is not good bread wheat. In the case of a country like Germany, for example, their major flour is made up of 75 percent of this domestically produced soft wheat and about 25 percent of hard, higher protein type wheat which they import from the United States, Canada, Australia, Argentina, wherever hard wheat is produced. This soft wheat does go out and competes with us in the markets. For example, we have complained about the competition where they have moved into the Latin America markets. They shipped a couple of hundred thousand tons of wheat into Latin America where they never had a market before.

The French have also contracted with the People's Republic of China, and their sales are some 500,000–600,000 tons now, and through the use of this mechanism they can very effectively undercut our offer prices.

Senator **Boschwitz**. By how much?

Mr. **Anderson**. Well, of course it goes by grades of wheat. We could submit instances of that. I think we have made reference to them in the case of wheat and wheat flour in some of the petitions. I don't have that information here, but we would be happy to submit some specific instances where we feel we have been undercut in various markets, if you would like that information.

Senator **Boschwitz**. I would.

Mr. **Anderson**. Yes, sir.

Senator **Boschwitz**. Senator Hawkins.

Senator **Hawkins**. I have no further questions, thank you. I will however ask further questions after your remarks on GATT.

Senator **Boschwitz**. What was the question on?

Senator **Hawkins**. Citrus and sugar.

Mr. **Anderson**. We have one coming up today on peaches, pears, and raisins.

Senator **Boschwitz**. This question has just been submitted to me, and I would like to read it: "I understand that a longstanding *Wheat Flour 301* case is being used to test the Subsidies Code." Longstanding. How long has it been in proceedings? Are you talking about 7 years?

Mr. **Anderson**. Well, this is one that has been around since December of 1975.

Senator **Boschwitz**. Well, that's long, then. I agree that the code needs to be tested and we must defend the trade interests in the United States. The flour subsidies of the European Community have been used by the EC member countries for half to practically all of the commercial flour exports to third country markets in the world, to the great detriment of our own country.

More specifically, I understand the United States will be going before the Subsidies Code Committee in Geneva next Monday. I further understand that the EC has not been forthcoming in consultation on the conciliation statement of the Subsidies Code processors. The letter states we must prevent any further "delay and move to the next stage of processing in the convening of a panel to decide the issue."

The question is, Is the United States firmly dedicated to moving ahead aggressively in calling for a panel at the Subsidies Code committee meeting on Monday?

Mr. **deKieffer**. Absolutely, Senator. There is no question that the United States has complied with our obligations in the code and with our obligations under the GATT. In a timely manner we called for conciliation and consultations. For the conciliation period, as a matter of fact, we have a minimum of 30 days, and that 30th day was yesterday. We have given the Community an opportunity to meet before the entire code committee; that's on Monday. We intend to call for the formation of a panel immediately, and that means Monday, if conciliation fails; in other words, if they fail to make offers to the United States that we and the U.S. industry find acceptable.

I think that your comment that the Community has adopted in the past, at least, a policy of stalling is quite accurate, and we do not intend to tolerate it. I think that the administration has demonstrated, not only in this case but in others, that we are not going to allow these kinds of dilatory tactics to confound the intent of the code or of U.S. law.

Senator **Boschwitz**. There is one other question that has been submitted to me, and then we will go on to Mr. Abel. And, Mr. Abel, I should have said at the very beginning if you want to comment on any of these—but perhaps at this point we ought to wait for your testimony.

Could you describe to me the criteria which USTR uses when deciding whether or not to accept the petitions under section 301?

Mr. **deKieffer**. Well, the current criteria are basically whether or not a complaint alleges the types of things that are required under the law. One of the concerns that we do have, and I think that is the thrust of your comments, is that some of the petitions that have arrived in the past have been only very, very general in nature.

Now, if we accept a section 301 petition and decide to proceed under the Subsidies Code, which would generally be the case, we now not only have to comply with the requirements of U.S. law, but we also have to comply with the requirements of the Subsidies Code, particularly article 12-4 of the code, and article 12 in general. This article outlines the additional information that it's necessary to provide our trading partners at the time we initiate a case, if we decide to, and we must provide it within 45 days after the submission of the petition.

In particular, Senator, one of the concerns that we have is that several cases have been brought to us which outline good, if you will, legal cases but said nothing about the adverse effects that were being caused to the domestic industry. Now, we might be able to win the case, but our authorization under the code for retaliation is limited by the amount of adverse effects that we can show. Therefore, it doesn't seem to make much sense to me to go through entire proceedings and then have a result that is not worth anything to the complaining domestic industry.

Therefore, it is my intention to issue new regulations with regard to the kinds of things that are going to have to be shown in section 301 petitions, with particular emphasis on requesting that petitioners demonstrate or at least have some information about what they really want, and what they believe they are entitled to get both under U.S. law and under the code.

We have not only time limits under U.S. law, but time limits under the code as well. We have only seven people on our staff, in the General Counsel's staff. It is very difficult for us to provide all the information and do all the work necessary. We certainly can and will work with complainants and with the Department of Agriculture, who has been extremely cooperative in these cases, but we do believe that when a petitioner files a case that they should tell us what they want us to do; in other words, what relief do they believe they are entitled to. Those new regulations will be put up for public comment probably within the next 2 weeks.

Senator BOSCHWITZ. Let me know how that case that we spoke about turns out, too.

Mr. DEKIEFFER. I certainly will, Senator.

Senator BOSCHWITZ. Senator, do you have any further questions?

Senator HAWKINS. Well, mine is expressly with Secretary Block.

Senator BOSCHWITZ. We thank you, Mr. deKieffer.

And now we will hear from Mr. Abel.

STATEMENT OF DR. MARTIN ABEL, VICE PRESIDENT, SCHNITTKER ASSOCIATES

Dr. ABEL. Mr. Chairman, my name is Martin E. Abel. I am senior vice president of Schnittker Associates, a research and consulting firm located in Washington D.C.[1]

The United States and the European Community—the EC—have had agricultural trade problems due to the rising costs of the Community's common agricultural policy and the need to dispose of their surpluses in world markets through the use of subsidies. Most of the trade disruption issues that we have encountered over the years stem from the basic problem of high price supports and what they do.

The problems we have had with the Community have existed, in a sense, ever since the common agricultural policy of the European Community was formulated. And I think this is important to keep in mind, in that we are dealing with an organic problem and one that does not really go away. Even though in some years the Community may have a poor wheat crop and reduce its level of wheat exports and possibly flour exports, in other years it may have a very large wheat crop, putting that much more pressure on world markets. And as we have seen, the problems have been proliferating.

I think it's fair to say that with few exceptions the Community has found it more expedient to export their problems than to deal with it domestically. That's true for both political and administrative reasons. As the Community has grown in size from the original 6 members to 9, to 10 this year, and with prospects of there being 12 member countries in the near future, it will become undoubtedly increasingly difficult to them to deal with their problems.

We have been forced to deal with specific trade issues, whether it's pasta or wheat flour or poultry or some other product. One of the difficulties in dealing with specific issues when they arise is that the community has open to it ingenuity and options of transforming one problem into another problem, so that the problems never seem to go away, they just get transformed from one commodity to another. The nature of these problems may change over time, but the fact is that the problems don't go away.

Until the Community faces up to the basic issue, which is high price supports, I'm afraid that we will continue to be confronted with a variety of issues and, as already has been pointed out, the number of issues may grow as the Community expands and the number of commodities involved increases.

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[1] See p. 88 for the prepared statement of Dr. Abel.

Senator BOSCHWITZ. May I interrupt you for just one moment?

Dr. ABEL. Yes.

Senator BOSCHWITZ. You said until they deal with the underlying problem of supporting prices at such high levels. Mr. DeKieffer referred to that, and I asked him whether or not that is realistic, and you kind of have referred to that it is easier for them to deal with their problems in an export mode rather than internally.

Do you feel that they will, indeed, be able to lower their support prices to their producers?

Dr. ABEL. It will be difficult, but certainly I think the Community has some viable options available to it, particularly if it is made difficult for them to dump their problems onto the world market.

In the United States, until the early 1960's, we had a high level of price supports for most of our commodities. Not high in the sense of $7.50 for wheat, but high in relation to the then prevailing world prices. We operated a system of export subsidies for a number of years. It was kind of messy in some respects, but it got the job done.

But we in the United States realized that this was not a viable policy for our agriculture, or for world agriculture. And we changed our policies to one under which we now set our price support levels at or below the world market price and one in which we provide income support to producers, which is not at issue as far as the Community is concerned, through other means such as deficiency payments, operating set-aside programs in times of excess production, and so forth. We bit the bullet in the United States, and, in principal, there is no reason why the European Community should not be able to do the same thing. It may be more difficult to reach agreement among 10 nations or, ultimately, 12 nations than it is for one sovereign nation to deal with these problems.

I would also say that the Community will be less willing, probably, to face up to a reorientation of their policies as long as they can look at the international markets as their safety valve.

Senator BOSCHWITZ. The suggestions you make or the arguments you projected, then, are certainly not going to solve the economic problems that they have with respect to their surpluses or their production, with deficiency payments.

Dr. ABEL. No, but it may bring about a reordering of their production. One must also keep in mind that their consumption is being constrained by these very high prices. If their grain prices were lower, their meat prices could be lower, meat consumption would increase, and it would expand the total market. So there is the consumption side to be very mindful of here, too.

Senator BOSCHWITZ. Pardon me. Is the market consumption of food in Europe elastic?

Dr. ABEL. Well, it is not elastic in the strict economic sense, but it would expand as a result of lower prices.

Senator BOSCHWITZ. Among their 270 million people.

Dr. ABEL. Yes. It definitely would expand.

It seems to me that, with what has been said here today, it's very important that the United States, in its approach to these agricultural trade problems with the Community, pursue a couple of courses. One, if we accept the fact that trade problems are inherent in the basic high price supports that are being provided to European producers, and that this can be changed but is not likely to be changed quickly, is for the United States to follow a course, which deals continuously with the agricultural trade issues of the Community. There should be a continuous dialog at official levels, at unofficial levels, at the private level, in addition to dealing with the specific manifestations of the more fundamental problems through 301 actions, where we are concerned about export subsidies of one item or another in an environment of crisis mangement. Crisis management tends to run the risk of getting out of hand, and it doesn't really deal with the fundamental problem.

Now, in saying that we should deal with this continuously, I also mean in a very firm manner. The problems are severe, and there's every likelihood that these trade problems will get more severe.

A second course is that I believe the United States should use every existing law and international agreement to deal with specific issues as well as possibly more general issues to contain as best we can the trade disrupting effects of European policy. And I'm glad to see that we are finally gaining some other allies, in terms of the Australians and a few other countries. This is welcome.

It is important that we exercise the maximum amount of pressure, not only with respect to the specific issues, but to make it known and to continue to make it known to the Community that ultimately they have to face up internally to dealing with their problems, that they can't continue to export them, at least without paying a rather high price.

Finally, I would say that in taking a firm approach we should avoid, on both sides of the Atlantic, becoming overly emotional about some of these issues; which is not to say that I'm downplaying the trade issues but that sometimes emotions can get so high that they become counterproductive. That's a judgmental question that our trade negotiators and other Government officials have to deal with, but it is true that in fighting the battles we should pick the right battles and follow the right strategy to try to accomplish not only the short term objectives of dealing with the specific issues but to do everything we can to ultimately get some reform in the CAP that will work toward a longer term resolution.

That ends my formal comments, and I would be happy to answer any questions.

Senator HAWKINS. Isn't perception a lot of the battle in this whole problem? It seems to me that when I have dealt with bilateral agreements that this country, historically, has given up first. And that is widely known, regardless of what product we are talking about, whether it is agriculture or commercial products. They tell the story of they can tell who's going to lose by who brought the most luggage—[laughter]—when they come to these negotiations, when you go to these different countries.

Senator BOSCHWITZ. Or who brought the least luggage.

Senator HAWKINS. Yes; either way.

And in discussing it with an ambassador the other night, in depth, he readily agreed. He said; "Yes; we always come to the table firmer, more resolute, and in no great hurry." He said if he had to pinpoint any point in time, that type of attitude began with the Marshall plan, and that the European Community still remembers the Marshall plan and thinks that they still may be enjoying another form of that concept.

Have you found those comments to be valid?

Dr. **Abel**. Yes; I think there's some validity in those comments. I think that the United States in negotiations with the Community and with some other governments is at a disadvantage for several reasons: Our people change; if you look at the U.S. side of the table year after year you see new faces; if you look at the European side, there are people that have been there for 20 to 25 years. The Europeans typically, I think, have a much longer term view on their strategy. And what may seem like an insignificant gain today in negotiations, for them can turn out to be a very significant precedent 5 years later when they want to do something else.

But I think there's another dimension to how we approach things. For example, if we argue about level of support, the Community will come back and say, "But you support your producers." And discussions, or arguments, as the case may be, can quickly get bogged down in who supports their producers more. That detracts from the larger issue. We are not arguing that the European Community is not entitled to support its producers. We have accepted the basic tenets of their policy.

I think one should be focusing on these larger issues which will require, in a sense, policy reform in the Community. In the same way that we can argue over pasta or wheat flour today, or some other commodity, and we must do that—but that in itself does not deal with the fundamental issue—high price support regime which continues to generate surpluses and which forces those surpluses onto the world market.

So I think one has to operate at both levels. It would be easier for the United States to form a longer term negotiating perspective if we could find a way to focus on the longer term problem.

Senator **Boschwitz**. The Americans apparently don't negotiate that way. We come to any kind of a meeting, whether it be business or otherwise, to get things done. If worse comes to worst, you go out to dinner with them and make friends with them. And then the next morning you settle things with them. I understand it doesn't always work that way, but I never thought of sending a couple of luggage carriers along. [Laughter.]

Senator **Hawkins**. That may work. I'm not concerned that we sent the number of people we did. Isn't that impressive? Being an expert observer like you are, for Haig and Baldrige and Block and Brock to all go at one time? It seems to me that would be very impressive to send that number.

Dr. **Abel**. I would think so. I think it might be almost unprecedented.

Senator **Hawkins**. I can't recall. But to send those four people, who are very resolute, with a very resolute President, to send them as his ambassadors, it seems like we're sending a message despite the total amount of luggage they took. I am impressed. I hope the European Community is.

Dr. **Abel**. One other point I would like to make is that it's a mistake to think of the European Community as a monolithic structure. They are very diverse. The balance within the Community on consumer versus producer issues and the cost—we have allies in the Community.

Senator **Boschwitz**. I was going to ask you about Germany.

Dr. **Abel**. Yes. Germany, Great Britain, and the Netherlands don't want items like grain substitute feed imports limited, because it's very important to them. And we should not forget that there are some sympathetic souls and sympathetic nations in the Community to some of the things we are trying to do. We should work wherever we can with individual governments as well as with private groups. Our various commodity associations do work with private groups as well as making representation to the governments.

Senator **Boschwitz**. Let me ask another question. When is the arrival of Spain and Portugal into the Community likely to occur?

Mr. **Anderson**. About 1984, I think.

Senator **Boschwitz**. What are the costs going to rise to at that point for the Community? If they are now at $37 or $40 billion, will there be large additional costs with the arrival of Spain and Portugal?

Suzanne, I see you shaking your head. You haven't said anything; if you would like to respond to that, please do.

Ms. **Early**. I think Bud may know the numbers better than I do, but certainly for the Mediterranean products there is going to be an increasing burden on the Community's resources.

Mr. **Anderson**. We don't have all the figures, but on the tax issue, on the vegetable oil versus the olive issue, the Community has estimated that it would cost 700 million European units of account, which would be somewhere in the neighborhood of $800 million, just on the olive oil issue alone. Spain has a tremendous surplus of olive oil, and to bring that type of a support system in under the Community umbrella would alone be a significant figure. So they are looking for some way to pay for that. And there are many in the Community who think that the way to pay for that should be to tax vegetable oil and marine oil. Of course, there are those in the Community who would react very swiftly and hard if they moved in that direction.

They are tending to run up against the cost ceiling to pay for the common agricultural policy. The levies that they get now only account for a very small proportion in paying for the total cost of the outlay of the common agricultural policy. The bulk of it comes from the 1-percent value added tax that is rebated to the commissions from the member states, and there is a specific limit on that, 1 percent, and it would take measures by the various Parliaments in the member states to increase that and increase the amount of moneys that would go to the Community. So, therein lies the upper limit, and if we get into a wheat or agricultural price situation, it will obviously cost the Community more.

This year, I think their expenses were not as high as they had anticipated. And this is really the reason they started to look at the possibilities for reform. In May 1980, when it looked like they were going to run out of money the following year, they mandated the European Commission to look into reform possibilities. And, of course, the other pressures are coming from Germany.

Senator **Boschwitz**. Any other comments?

[No response.]

Senator **Boschwitz**. We thank you all for coming. The meeting will stand adjourned.

[Whereupon, at 11:55 a.m., the subcommittee recessed, to reconvene at 10 a.m., Wednesday, December 16, 1981, in room 324, Russell Senate Office Building.]

U.S.-EUROPEAN AGRICULTURAL TRADE

WEDNESDAY, DECEMBER 16, 1981

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, in room 324, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Lugar, Hawkins, Dixon, Pryor, and Zorinsky.

Also present: Senators Helms and Andrews.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. The subcommittee will come to order. This hearing is called for the purpose of reviewing the activities of the Secretary of Agriculture, the Secretary of State, Secretary of Commerce, and also the Trade Ambassador, Ambassador Brock.

Recently, the above-mentioned Cabinet officials met with European Economic Commission leaders with respect to the possible imposition of levies on additional American agricultural products that go to the Europeans Economic Community, and also for the purpose of seeing whether or not the Europeans will abate and be more reasonable in the manner in which they subsidize products that they export into the world market. The European Community has been an important market for American agricultural products. A large export, to the tune of approximately $4 billion or 10 percent of our total export, is in the area of soybeans, soybean meal, and soybean cakes. Another important export is corn gluten feed, which is approximately $750 million; that too has escaped the very high levies that the European Community has put on a number of our exports.

This tariff classification is important for our country and should be continued. It is also important, not only for this country, but for the major agricultural producers of the world to prevent the dumping or the subsidizing of exports which the Community has done.

In our earlier hearing last week we listened to Bud Anderson, who is with us today, and others testify of the history and background of the European Community, the common agricultural policy that they have developed, the necessity for it after the war, and how they have changed from a net agricultural importing area to a net agriculture exporting area and in the process have disrupted a number of markets.

Last week, I think we pointed out, Mr. Secretary, that in a trade item like poultry that they had been the world's largest importers but they have now swung full-circle and are the world's largest exporters.

In an unusual display of American unanimity four Secretaries were there, three Secretaries and our Trade Ambassador. Often this committee finds itself in opposition or contrasting its viewpoint with other committees of the Congress and you with other Secretaries as to what the proper trade policy in the agricultural area should be and whether or not the foreign policy of the country is best served by various actions in the area of trade policy.

So, it is particularly rewarding and particularly important that the Secretary of State, the Secretary of Agriculture, the Secretary of Commerce, and the American Trade Ambassador should be at the same table at the same time holding the same position which is certainly the position of the members of this committee.

We welcome you here this morning, Mr. Secretary and before we ask you to testify, I would like to ask if some of the other members have opening statements.

Senator Dixon?

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Senator DIXON. Thank you, Mr. Chairman. Mr. Chairman, the vital importance of American agricultural products in world trade is well-known, especially in regard to wheat, feed grains, and soybeans.

Agricultural exports have expanded more than $40 billion. Exports provide a substantial portion of the farmer's income and greatly offset our negative balance of trade.

In my own State of Illinois, the State of our distinguished Secretary of Agriculture, Jack Block, the leading agricultural exporting State of the Nation, our exports have grown from $670 million in 1971 to $3.6 billion presently.

With commodity prices continuing downward and interest rates remaining high, the viability of these export markets is critical to our economy.

At issue is the continued use of an agressive European Community export trade policy, using subsidies and import barriers which is costing U.S. markets for wheat and threatening our trade and other commodities.

EC grain production has grown rapidly. High internal grain prices have provided EC farmers the incentive to increase wheat production by 43 percent in the last 5 years. Barley, the EC's principle feed grain, increased by 30 percent during the same time period.

Unless the EC's pricing strategy changes, this rapid production expansion will continue. The EC's high internal grain prices not only stimulate production but also restrict domestic consumption. Therefore, exports have risen.

The EC's trade policy threatens to undercut our markets in Third World nations. Our exports have suffered already, Mr. Chairman. Our export market to the European Community has dropped from 25 to 20 percent in the last 6 years. Corn exports have dropped from 13 million tons to 9.5 million tons in the last 5 years. Since the EC's formation in 1962, our flour exports have been cut in half.

We cannot afford any further deterioration of our markets and must continue our efforts in expanding and promoting agricultural products.

Mr. Chairman, I look forward to today's report from my good friend, Secretary Jack Block, on his recent Brussels meeting with members of the European Community Commission.

Thank you very much.

Senator BOSCHWITZ. Senator Helms?

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. Mr. Chairman, I commend you for calling this hearing. In my judgment, there is not a more important facet assigned the farm economy than precisely what we're meeting about this morning.

If our farm economy is to be rebuilt and stabilized, it is going to have to be done through exports which in the first place are what made the farm community strong in this country. I welcome you, Mr. Secretary. I'm delighted that you are here and I am anxious to hear your report.

I hope that in your conferences the four of you emphasized that this business of trade is a two-way street. Japan is the largest single nation purchaser of agricultural products, but the EC represents to us our largest agricultural export market.

So, what you have done and what you will continue to do in this will hold the key, Mr. Secretary, to the stability of the agricultural community in this Nation. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Senator Lugar, do you have any opening comments?

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Mr. Chairman, as my colleagues have pointed out the importance of exporting American agricultural products I would underscore this by saying that—and I am certain the Secretary agrees from public statements—but it is so important to reiterate that our American agriculture now is based upon the thought that substantial amounts can be sold successfully abroad. This is a strategic value to us and we are able to maintain all this plan only with that assumption.

To the extent that the exports do not move, the results are a catastrophe. Corn is selling at elevators in Indiana as of yesterday at $2.22 a bushel, which is down $0.12 from a week ago.

That is a price, not only so far below all the farm bill projections that we have been talking about as to render all the assumptions too expensive almost as a whole, but it simply illustrates the fact that this corn crop, our wheat crop, our basic crops are based on the thought that this is of great value to our country and we maintain that value by our ability to export abroad.

Now, coming into this question, as you know, Mr. Secretary, and we will all be discussing this, I'm sure, in the next few days, weeks. The situation in Poland is throwing a great scare into the futures market and it is predicated on the thought that somehow those exports are going to be disrupted, if not by embargo, by problems of war or shipping or all of the hazards that come into international conflict.

So, in addition, the great crops we have which are a tremendous value to this country, we now have the threat of war, of a threat of embargo, or the threat of political action overhanging it. As a result, I know that you will be visiting with the Secretary of State, with the President and with others. We have just been through a monumental debate on the farm bill, in which this committee and then the Congress as a whole expressed the thought if we were to get into embargoes they need to be across the board.

I think we all meant that. It was not an idle gesture and I'm staggered by the discussion in the public now of an agriculture embargo alone.

I think today you could be reassuring to us in your testimony that it is not the case. In essence, if we are going the embargo route at your advise and counsel, certainly the support of this committee will be that we go the total embargo route, and that if we are going to use economic weapons American agriculture will not be penalized and then on top of that, that if we are, in fact, to have a strategy of full production that there are reasonable grounds to suspect we shall be able to export more and that prices will come back up into the ranges that you predicted and the Department of Agriculture has predicted.

Senator BOSCHWITZ. Thank you, Senator Lugar. Senator Andrews?

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator ANDREWS. Thank you, Mr. Chairman. I appreciate your letting me participate in this meeting.

Mr. Secretary, it's great to have you here and it was great to have you in Brussels. I am glad that you were there representing the farmers along with the other people who were participating in those talks.

The greatest secret in the Nation's press is the contribution that farm products make to our balance of payments.

I don't care who you talk to. Get the Department of Commerce up to testify and they talk about increasing exports and you ask them, well, what is our biggest export and they fudge around a little bit and then they say agricultural products. And, I said, where have the biggest increases been and they always say, agricultural products.

And, they have always had the ag attaché sitting at the short end of the table. In fact, we fought for 10 years to give ag attachés counselor status.

And, Mr. Secretary, one of the great things about your administration or the Department of Agriculture is that you immediately recognized the need for these overseas markets. Not only have you gone overseas to develop markets, but you sent your principle assistants to Europe, Latin America, and China where the big markets are.

I think one of the things that the Nation ought to know is that our farm families are competitive and our farm families do, in fact, produce food at a bargain price. I think that people ought to realize that our farm families can compete, but they can't compete against other governments.

In the European Economic Community, if they have an entry level price on wheat of $9, and if we give the wheat away, they are going to put a $9 tariff on it. It does not make any difference what we sell it for. If we sell it for $7, they are going to put a $2 tax on.

Our farm families are helping subsidize these European governments. In Japan, it is even more ridiculous. They send all their Hondas and Toyotas to us and enjoy an $8 billion trade surplus. They support the price of wheat at $20.90 a bushel and we cannot sell but a few tons of beef to them.

Agriculture, really, is the latent sleeping power in America. If our Nation would only recognize what they are contributing. Your efforts to break down these trade barriers and your efforts to talk turkey with the people in Brussels in the European Economic Community and in effect say, look we cannot spend tens of billions of dollars on our NATO alliance if you do not at least trade with us on an even-steven basis will help immensely.

I think these are important steps forward that will help this Nation over the long haul, not just in agriculture, but in our total commitment to better understanding around this troubled world. I applaud you for having gone there and for the great strides you have taken in maximizing the exports of farm products.

I appreciate your being here and I am looking forward to having you out in North Dakota tonight, as well. Jesse, as you know, the Secretary is going out to North Dakota to speak to our land-grant institution, a totally nonpolitical speech. As a matter of fact, Senator Burdick and I are going to be there on the platform with him.

Senator Burdick and I will both be there, totally bipartisan. We have people coming in from all over the State, even though it is 16 below zero out there. If you think it is tough here, you ought to try North Dakota.

They are coming in to hear what the Secretary has to report on his Brussels trip and the other things that he is doing because they realize, even though they are extremely interested in farm prices, that the answer to the farm problem is more exports and they applaud Secretary Block for what he has been doing.

Senator BOSCHWITZ. Thank you, Senator. Mr. Secretary, it certainly is a very lovely time of year to go to North Dakota. And, the Senator will be pleased to attend additional hearings that we have early next year about Japan and the various impediments they place on approximately 200 items, agricultural items that we seek to export to them.

And, if I may make just a very short comment. The Senator is indeed correct. Our exports are $43 billions. Our imports are $17 or $18 billion.

Our net trade surplus in agriculture is the largest surplus that we have developed in any item and indeed pays somewhat over half of the cost of our imports in oil. Without those exports our dollar would certainly be weakened and our economy would be perhaps even worse than we find it today.

Senator Hawkins, do you have any opening comments?

Senator **Hawkins**. I would just like to welcome you again, Mr. Secretary, and ask one question. With the prospects of Spain and Portugal entering the European Community, do you feel that since your visit that this is a positive or a negative factor in our trading relationship?

Senator **Boschwitz**. With that question, why don't you begin, Mr. Secretary, and answer the question and go through your prepared remarks?

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary **Block**. Thank you very much, Mr. Chairman, and Chairman Helms and distinguished members of this committee.[1]

I want to thank you first of all for the opportunity to join with you today so that we can discuss and talk about some problems in our export business that we are all concerned about.

And, I would say initially, in answer to Senator Hawkins' question, the ultimate entry of Spain and Portugal to the EC from an agricultural standpoint will create some problems because of some of the produce that they have and the high support system that is going to encourage even more production in Spain and some of these products will certainly be competing with us. They have oil products.

This in itself, gives them an incentive to look at ways of keeping some of our soybean oil out of the Common Market, probably eventually even maybe some citrus or some other kinds of products. So, we do view this with concern.

From another standpoint, from an international security standpoint, from the standpoint of European stability, the United States stands to gain by having a strong cooperative European Community working together. So, there are two sides to that and I think it can all work out. First, we absolutely must be firm and insist that the rightful markets we have paid for remain open to us, whatever they might be, whether they are corn gluten feeds and feed substitutes or soybean products. Second, the Community should be looking and moving very very quickly to show some real evidence that they are going to move toward discontinuing this policy of subsidizing exports in the world market, dumping these exports on the world market, and in the process, of course, disrupting our market.

So, you have a good point there. I thought I might answer one or two questions that were raised in the opening remarks before I went into some of the other discussion, if that is all right with you, Senator.

First, the issue of embargo. We are all concerned about the situation in Poland, concerned about it from the point of view of the people of Poland, from our friends, our relationships, and we are concerned about it also from—naturally, from the question of outside interference, Soviet interference or otherwise.

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[1] See p. 90 for the prepared statement of Secretary Block.

But, I can assure everyone here there is absolutely no question about it. There will not be a selective embargo on agricultural products.

Now, I do not know if there will be an across-the-board embargo or not. No one knows what will happen and no one knows what kind of action might trigger a total embargo. I am talking about a total embargo.

That is a decision that will be made by the President. It is a decision that probably would necessitate consultations with our allies. We have already had some consultations and I am sure there are some contingency plans laid out, but those contingency plans are not going to be public knowledge, and you would not want them to be.

So, all I can say is, invasions of different magnitudes pose the gravest of concerns and consequence. We all know that, but the agricultural community can rest assured that we are not going to be made the sacrificial lamb, and we are not going to be singled out. It is not this President's policy to do that and when I came into this administration, I fought to take a selective embargo off and we are not going to impose one.

Senator **Boschwitz**. Wait until we get this farm bill passed, Mr. Secretary.

Secretary **Block**. We are going to get it passed, too.

Senator **Boschwitz**. We have some protective provisions in the farm bill with respect to embargo.

Secretary **Block**. I understand that quite clearly. And, the truth is, the fact that this President is not going to impose a selective embargo is the reason we have no concerns about what those provisions might be.

And, let us, if it is all right, Mr. Chairman, talk a little bit about the meetings we had in Brussels.

This whole affair came on as a result of the fact that Secretary of State Haig was going to be in Europe, Ambassador Brock was in Europe. We have some economic and trade problems with the European Community that need attention and once it was determined that a meeting was important, I made contact with them and we all came together and agreed that since agriculture and agricultural trade is probably the foremost and most difficult issue under consideration that agriculture needed to be upfront and right in the middle of the discussion. That's where we were.

And, as I told Senator Helms and Senator Boschwitz just a minute ago, we went over there with a very strong message and I personally feel it is very significant that it was not a message muddled by differences of opinion.

Secretary Haig was the leader of the group and flanked on either side was the Secretary of Agriculture and U.S. Trade Representative Bill Brock, both of whom I understand you will be hearing from at a later date to discuss this whole issue so that you will learn what they have to offer on it.

Our message was very clear and as I said, agriculture has the full support of this administration in a very unified effort against the EC for practices that we believe are unfair and they are certainly detrimental to our agriculture.

This meeting was really a followup to earlier meetings that I had with EC officials. When I was in Europe back in June, in my own office in meeting with ambassadors and, in fact, in my own office when I met with President Thorn back in—it was late June or July—the message that we have been sending has been one that has been consistent and we have not made any changes in it.

And, as we met in Brussels, I told them that although I had asked them to do something about our differences and our problems, almost nothing has been done. There has been no progress.

In fact, to the contrary. The situation has deteriorated. Agricultural relations between the Community and the United States are becoming increasingly strained and I warned them that the opinion in the United States, in our Government, and in the farming community is increasingly focused on what we consider to be threats to legitimate U.S. agricultural trade interests by the EC, and I think this is borne out by the fact that before I went—and I did not solicit a thing and I appreciated it very much and it strengthened my hand—I received this letter from the Senate Committee on Agriculture, signed by some 50 Senators, and I waved this to them as I spoke and then I pulled out this proclamation that came to us from the Senate Finance Committee. Senator Bob Dole sent it over.

Now, it is really focusing more on our problems with Japan, but it also exemplifies the intense interest that we have and the commitment we have to a rightful access to markets.

And finally, I had a letter from Senator Percy expressing basically the same thing. So, I went there armed with a great amount of support from our Congress and I personally feel that this helped a great deal.

We had the strength of unity within the executive branch and I went there armed with unity from the congressional branch. And, you cannot ask for a whole lot more and I think it gives us a strong card to play.

It has become increasingly clear that the agricultural community is upset about this. The farming community is astute. In U.S. agriculture we have seen a gradual evolution. There is a change in attitude and thought.

The attitude, today by and large is that our future in agriculture and for agriculture in the United States does lie with expanded markets, international and domestic. It does not lie with high supports along with extensive Federal farm programs. We really need to look to markets and that is what the attitude is in the country. And, if that is the case, as it is, we must protect the markets that we have and we must look for their continued expansion.

We did tell the Common Market that we are pleased that they had, at least for the time being, agreed not to impose a tax on vegetable fats and oils.

However, with this threat to our soybean trade laid aside now, we ask, how long will it be laid aside? I hope indefinitely.

We did bring to their attention that we hear rumblings and talks of continued pressures and the possibility of some kind of attacks or levy on our corn gluten feeds.

And in a press conference and, of course, in the meeting also as we met with President Thorn and Commissioner Dalsager and a number of other commissioners and the vice president of the EC, I told them that any effort to impose a tax or a levy or to deny us this market we have a rightful access to and which we paid for in our trade negotiations, that they can expect to fight because we are going to fight for this market since we believe that it is rightfully ours and it should not be changed.

I pointed out that the rash of petitions being filed under section 301 of the Trade Act of 1974 against the EC subsidy practices reflects the genuine concern on the part of the U.S. producers and these are valid concerns. They have come about because of the circumstances at the time.

I pointed out to them an example of what this subsidy has done and I think that the American farmers are aware of this. In these times of low prices, it is especially significant.

A few years ago, and you do not have to go back very many years, 4 or 5 years ago, the EC was exporting about 7 million metric tons of wheat and wheat flour. Let's just talk about wheat. Now they are up to 14 million metric tons. They doubled their exports of wheat over this time and it appears to be still going up.

With this doubling of wheat exports, that is 7 million metric tons of extra wheat and wheat flour floating around in the world market depressing world market prices.

Our economists tell us that the 7 million metric tons has depressed the world wheat price by 50 cents a bushel. That is 50 cents a bushel that our farmers have not received for their wheat because we live with the world market price here in the United States, so we have lost 50 cents a bushel because of their trading practices.

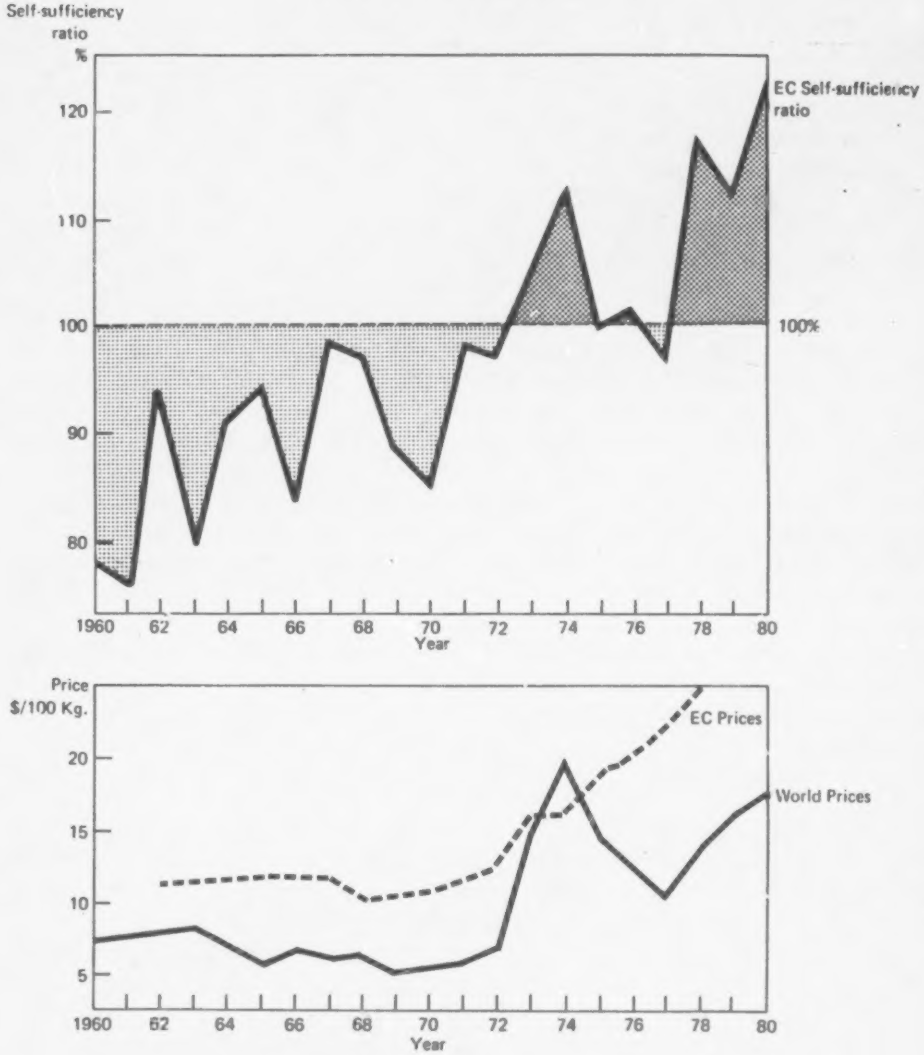
Senator ANDREWS. Well, Jack, should it not be pointed out that every bushel of those exports is being subsidized from $4.50 and $5. A great deal of those subsidy moneys come from the earnings they have on the food products they import from us.

Secretary BLOCK. That is precisely correct, Senator. They have high levies on the products that we export, corn and many other feeds and the money they make from these levies plus other tax revenue is used to pay a huge amount of subsidy. It is estimated that about $36 to $40 billion are paid the EC Commission and member states to subsidize their agriculture.

Nearly half of this money is used to subsidize their exports in world markets. Because, there is no way in the world the EC can compete and export their products on the world market without massive subsidy because their products are priced at a very high level. There would not be anything sold in export from the EC, virtually nothing at all sold in export in agricultural products, perhaps with the exception of wine.

I had this chart which I took to them and I pointed it out to them. This is my soft wheat chart. And, over the years, the EC price—that is the dashed line—has always been higher than the world price. It started off back in 1962 and it has just stayed higher than the world price.

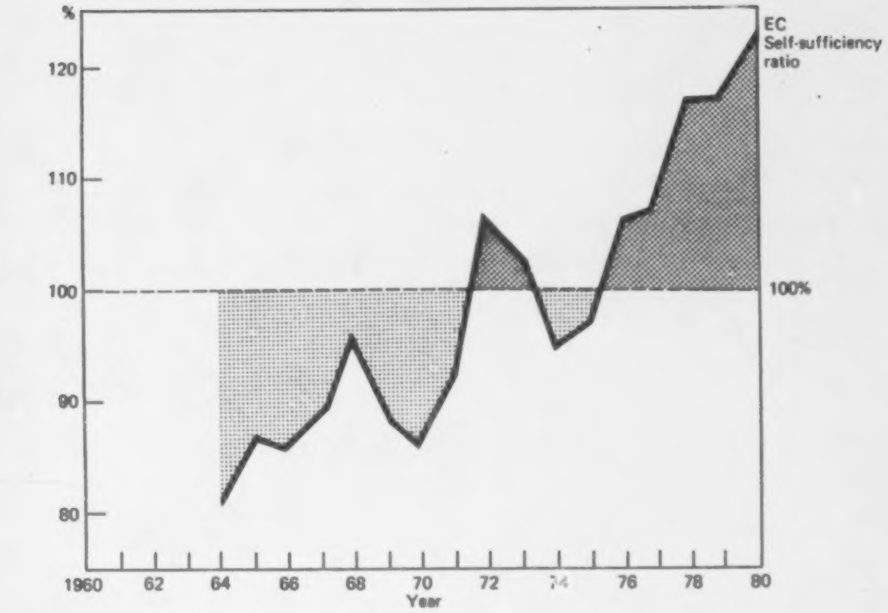
SOFT WHEAT

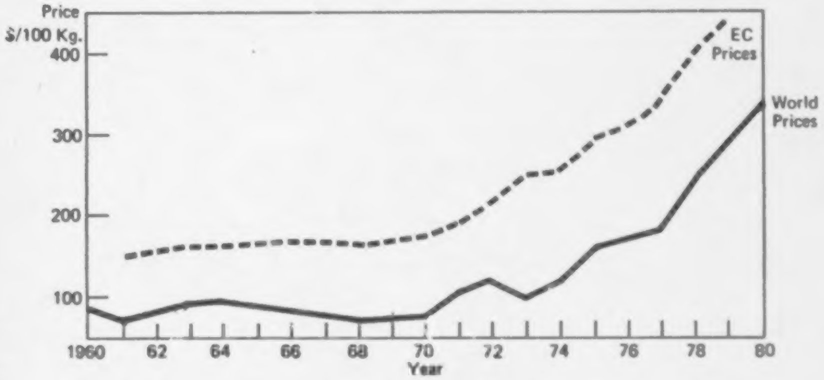


World Prices - Australia (Sidney) (International Financial Statistics)
EC Prices - Wholesale - Eurostats
Import/Export ratio - USDA data

Treasury: ITT

BUTTER

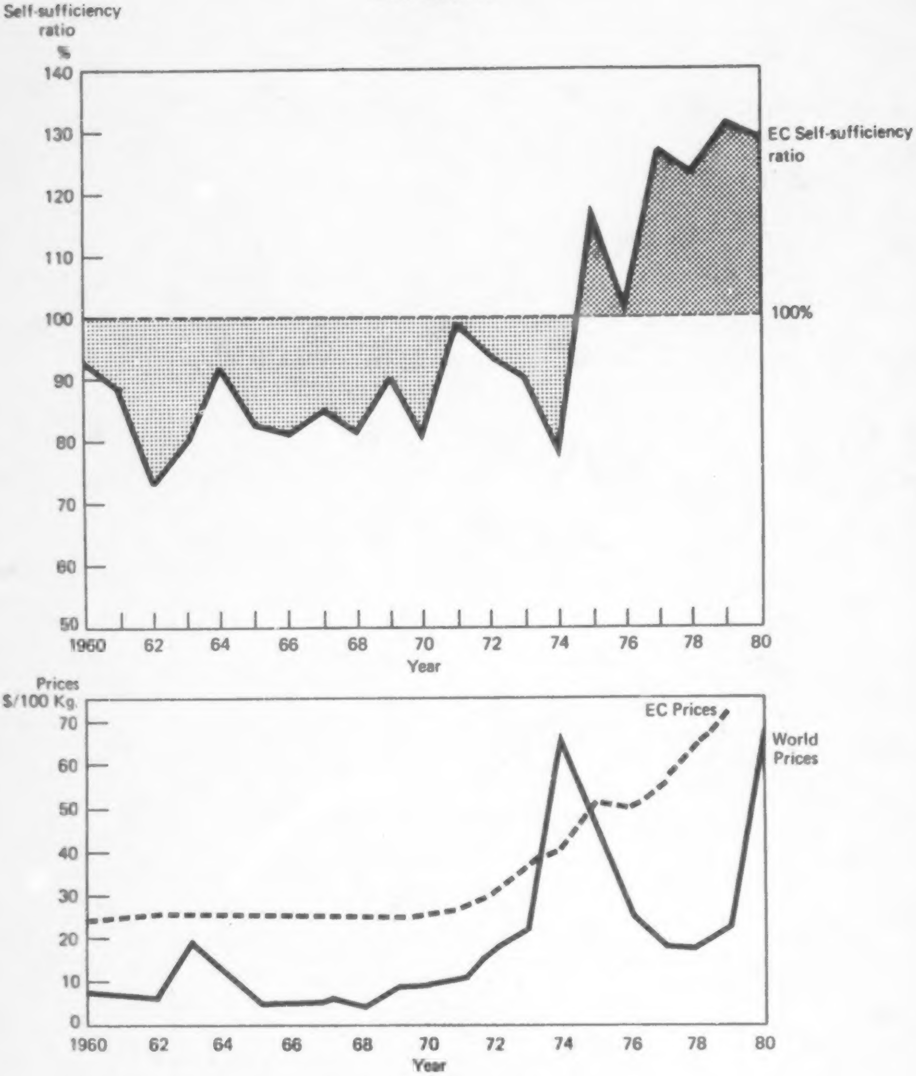




World Prices - New Zealand (International Financial Statistics)
EC Prices - Wholesale (Eurostats)
Import/Export ratio - USDA

Treasury: ITT

SUGAR



EC Prices - Wholesale (Source: EPI Economic Perspective, Inc.)
World Prices - Free Market Price - Caribbean (International Financial Statistics)
Import/Export ratio - USDA

Treasury: ITT

Secretary Block. What has that done? It has done what always happens when you have an artificially high price. It encourages production. So, their production has gone up. Production has gone up to where they, the EC, crossed the self-sufficiency line back in 1972 and now they are up here in the darker area (designating the export area).

As this area goes up, everything in the darker area must be exported in the world markets. You cannot export in the world markets without heavy export subsidies over there, so they are buying world markets with their treasury while our farmers are willing to compete in world markets with anyone, as long as we are competing on a fair and even basis.

But, we should not and cannot be asked to compete against the treasury of other countries in the world. It is a very unfair practice.

They did argue back that the subsidies code does provide for export subsidies. We can see that it does. But, it does not provide for export subsidies when it disrupts the markets of other countries and displaces markets, takes markets away from us. This is the point that we argued against them.

In addition to the 50 cents a bushel that our farmers are losing, the U.S. Treasury has had to pay out some $400 million in deficiency payments to wheat producers and we would not have had to pay that $400 million if we had not had disruptive trade that had been subsidized under the world market.

The export subsidy market has gotten to the point that is disrupting even our internal farm programs and costing us money there.

The EC officials, especially Commissioner Dalsager, tried to make us appreciate the fact that they are trying to reform the system. First of all, it must be understood that we did not attack the common agricultural policy. We concede that is an internal policy.

Our problem is when that total policy of the EC disrupts world markets and disrupts our markets, then we must raise our voice and complain. We were told that this coming year the EC is trying to bring their prices more in line with world market prices by only having a 4- to 7-percent increase in prices.

Now, you know that does not make a lot of sense to me when world prices declined in this last year. Unfortunately, I wish they had not, but they have. And, for them to put a 4- to 7-percent increase on top of declining world prices, they end up further apart and not really closer together.

Furthermore, they have said that they intend to cap these exports in some manner. When they reach a certain point, they are going to quit subsidizing the exports or subsidizing the production so much.

I told them I did not understand how they were going to do it exactly and I remained skeptical. One reason for my skepticism is that their export tonnage now and where they intend to cap it, as we understand it, is considerably above what their export tonnage is now and that does not portend very good things for the future for us.

In summary, as we came away from there, I felt that the first thing was accomplished. They did see a united front from the United States. They had to understand that there was and is enormous determination to do something. They will be in the United States for discussions in mid-February and we will be talking to them once again.

I think there was no solution to the problems, differences of opinion. I told them we are not looking toward trade wars or problems like that, neither country needs it.

We do expect some results and we do expect to see some changes from the policies that we feel are being very damaging to us and to our farmers.

I am prepared to answer any questions that you people have.

Senator BOSCHWITZ. Mr. Secretary, I am pleased and I understand that the Europeans will be here in mid-February. They will be here just in time for a continuation of these hearings. Secretary Haig has not returned from Europe, so we could not have him here, but he will be at hearings that we will have in February.

The Europeans saw a united front, as you put it, and they saw enormous determination. There are really two halves of the problem, the first the imposition of import levies on soybeans and corn gluten feed and the second is preventing the subsidies on the exports which are so disruptive of world markets as you describe.

They did see a united front. They saw quite a few of our Cabinet members all at once of a single mind, and respect to agriculture. They saw, as you said, enormous determination with respect to either half of the problem.

Can you be more specific with respect to what the results were or what their response was? Does it appear they are not going to increase levies or does it appear that they are going to reconsider their export policies?

Secretary BLOCK. In the opening remarks that President Thorn made, he said that the EC intends to live by the MTN agreement and GATT agreements and that they are going to live with the rules.

In my remarks, I said that that being the case, then probably we should set aside our concerns about the open and free access for our corn gluten feeds and our soybean products because clearly we have paid for this access to your market and thus any changes there, any ideas would be obviously in conflict with agreements already in place.

There was not much said about that, Mr. Chairman, until later in the day when we had the press conference. When I was asked a question whether there is a problem with the EC on corn gluten feeds and as I was about ready to respond that it appeared since the EC was going to live by the code that there would be no problem there at this time; President Thorn told me, before I made my statement, that they have not made a decision on corn gluten feeds and that the final decision is still floating around and still up for comment.

So, naturally, when I made my statement, I just had to say that there was no decision made by the EC, as I understand it, from the President, and consequently I needed to make it clear to everyone that any thoughts or ideas about denying this market or charging us for it would meet with a severe repercussion from the United States.

So, I guess if you want to know what the attitude is, it is that they have not made a decision on the corn gluten feeds. They made a decision on the fats and oils, but even those decisions can be changed.

If they want to change their mind, and it seems their attitude on subsidizing exports is continuing to do so, then it is my opinion that the only way to confront that or to bring it under control is to make sure that the EC knows that we are firm on our stand and that we are prepared to retaliate in cases where we need to because we have every obligation to do so. It is necessary that we protect our own interests and this was the point made to them.

Senator BOSCHWITZ. We certainly do have that determination in the Senate as well. The signatures on the letter that was sent to you were obtained very quickly and we can perhaps get 30 or 40 more which would almost be the entirety of the Senate to strengthen your hand.

Mr. Chairman, I know that you have another commitment. Did you wish to ask some questions?

The CHAIRMAN. Thank you, Mr. Chairman. I do have to go to the Ethics meeting.

First of all, Mr. Secretary, I'm encouraged by the show of unity in Brussels. I don't think we have had that before, to my knowledge.

Now, let me ask you. Have you reported to the President on this meeting?

Secretary BLOCK. No one has reported to the President since we have been back, not yet.

The CHAIRMAN. My own conversation with the President indicates that he is thoroughly sympathetic. Now, I am not going to ask you to construct a time salvation in one sentence or less, but Commissioner Dalsager—Is that the way you pronounce it?

Secretary BLOCK. Yes.

The CHAIRMAN. On a scale of 1 to 10, what determination did you make as to his interest in getting these adjustments made or was he just listening and talking?

Secretary BLOCK. Well, it is very difficult to say for sure. Personally, I feel he has a serious interest in bringing this together somehow, but considering the problems thrown at us, the fact that there are many interests in Europe and all these different countries have different interests, needs, and desires and problems and it is hard to bring them all together. I think we all need to appreciate the way the system works over there with these export subsidies.

Some of the countries pay quite a bit. They are net losers in this agricultural export production game. The United Kingdom is a net loser. Germany is a major net loser. In other words, they are footing the bill. And then the others by varying degrees lose a little bit.

The big winner is France. There is no question about it. France benefits an enormous amount from it and I have to admit it is—I just cannot understand why a country as truly rich in agriculture lands, they have some good agriculture, why there should be any need for heavy export subsidies to help a country like that.

But, those are internal policies and we are not going to tell them how to do it, except to the extent that they unfairly damage our trade.

Commissioner Dalsager will be looking forward to meeting with you and some other members of the Senate that are concerned and interested in these exports. He is going to be here. We will have him on the Hill to talk to the people here, and you can help us in bringing the message forward loud and clear.

The CHAIRMAN. Well, that, too, is something I anticipated. I can't wait to hear Senator Andrews get in touch with this gentleman at some sort of meeting.

Senator ANDREWS. I'm looking forward to it, Mr. Chairman.

The CHAIRMAN. I know you are.

The point is this, the most encouraging aspect to me is that finally, at long last, our Government is getting its act together in terms of the EC. You know what Leo Durocher said about nice guys. I hope we can be nice and also be No. 1 again.

Senator PRYOR. What did he say? I'm not sure what he said.

Senator BOSCHWITZ. Down in Arkansas, they don't know those things.

The CHAIRMAN. I will get Lou Holtz to tell you. You will be monitoring all of these things, and I hope, Mr. Secretary, that there can be at least a daily communication between your Department and our committee so that we will know of every little thing that is going on because our Government needs to address this problem as a part of a whole.

You know the Defense Department, the Commerce Department, all of us, and I had the feeling in the 9 years I've been in the Senate that everybody got on his horse and rode in a different direction when it came to the EC.

Now we have our act together, and so I want to commit this committee to you in terms of constant communication, and I know we can count on you to give us daily the information that we have because if we don't rectify the deficiencies in our export situation, if we don't increase our exports, and, as you said, we want to do it on the free market basis. The American farmer doesn't want any subsidies.

He would rather do it on a free market basis because he can outproduce anybody else in this world, and so if we work together—I mean not just your Department but all departments and this Congress, I think we can surround this thing.

I thank you for making the trip, and I thank you for pursuing this with the dedication that you have.

Secretary BLOCK. Mr. Chairman, let me also say that we even have, I think, some substantial and important additional allies. There are a lot of other countries in this world that believe in freer trade and opening markets, and that are joining us; not will, but are. They are joining us in this effort. We will be counseling with Ambassadors and trade representatives from Canada, Argentina, Australia, and some other countries in addition to that because they have the same concerns that we have.

I even see in an article, Senator Andrews, where you spoke on a program with the Minister of Agriculture from Canada where the two of you were speaking the same message about the disruption in world markets by the EC. We have allies, and so we have a lot of strength to try and do something about this, and we just cannot afford to let up.

The CHAIRMAN. One last question, and then I must go, Mr. Chairman. Did I understand you to say that it was $400 million that it has cost the American taxpayer because of subsidized competition?

Secretary BLOCK. Yes; it cost us that because of this extra grain dumped on the market through export subsidies has depressed our wheat markets by 50 cents a bushel.

If the wheat market had not been depressed 50 cents a bushel, the U.S. Treasury would not have been obligated to pay $400 million in deficiency payments.

The CHAIRMAN. Well, I am asking questions I know the answer to, but I want the record to be clear. Over what period of time?

Secretary BLOCK. That was 1 year. I hope we do not experience that this coming year. We have to have higher prices.

The CHAIRMAN. As the Prince from Denmark once said, that's a consummation about to be wished. Thank you, sir. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you. To expand on that another step, Mr. Chairman, it has also cost our farmers at 50 cents a bushel about $1.7 billion. I believe that was a Michigan State University study, wasn't it, that came up with that?

Let me ask one or two more questions, and then yield to my colleagues. I was pleased to hear you say that other countries are coming to our side in this, and you mentioned Canada, Argentina, Australia, Thailand, and the Philippines. Yes; what is the attitude of Argentina most particularly?

Secretary BLOCK. Well, we have met with their ambassador and some of the representatives. I think a deputy foreign minister was in, too. We had lunch with him. They are very interested—all of these countries—in working with us to try and bring out and encourage the EC to use fair trading practices that do not disrupt their markets as well as our markets.

I think they have got some concern as to whether we will maintain or continue our commitment, or will we sell them out, and we assured them that we are not going to sell them out. We are looking for a complete, fair resolution of this problem rather than some kind of a bilateral piecemeal agreement because we think it needs to be a fair solution which would enhance world trade rather than some kind of a piecemeal bilateral answer.

Senator BOSCHWITZ. Mr. Secretary, you spoke briefly before the hearing about the fact that you would be following up in bilateral meetings with some of the other agricultural exporters. I urge you on in that regard, and to do so prior to the February meeting because quite clearly our hand will be strengthened if we have a unified front among all the exporting nations.

Certainly Europe has a long history of needing, and importing foodstuffs which, of course, is the reason they put the European Community together in the first place. Your comments about the cost of their program, and I will conclude my questioning with this, and then come back after my colleagues have had an opportunity, that the cost of the agricultural programs in the Community is somewhere between $36 and $40 billion, approximately a dozen times more expensive than the agricultural programs in this country. So the idea of increasing prices 4 to 7 percent could mean an additional cost of $1.5 to $3 billion in their program. Is that correct?

Secretary **Block**. That is the way it looks to me.

Senator **Boschwitz**. Because whatever additional price they get for their products——

Secretary **Block**. They're going to have to pay for it.

Senator **Boschwitz**. It certainly is not going to be received from the marketplace. The Germans and the British, as you point out, are net payers into this fund. What is the loss on the part of the Germans? You said that they were the principal losers. What is their net loss?

Secretary **Block**. I think that the Germans end up paying in a little less than $2 billion. I have with me today——

Senator **Boschwitz**. In excess.

Secretary **Block**. Yes; in excess. It costs them about $2 billion to be a party to this game. I have with me today the Administrator of our Foreign Agricultural Service, Dick Smith, on our left, and he was with me on this trip and in the meetings. Is that not about right? About $2 billion, and the United Kingdom was--it was costing them about $1.5 billion, but they complained enough that they received some reductions there.

I don't know all those figures precisely, but somehow the squeaking wheel is heard.

Senator **Boschwitz**. It is interesting that for approximately the same number of people as in the United States that live in the European Community of nations, the 10 nations, they have 22.5 million people who are farm laborers. We have somewhat less than 4 million who are farm laborers.

I suppose that accounts to some degree for their political ability to obtain the enormous subsidies that they get—12 times the cost of their farm programs as our farm programs cost in this country. Senator Lugar?

Senator **Lugar**. Mr. Chairman, I am curious as to how these subsidy payments are made. For example, a French wheat farmer is subsidized so much per bushel. Does he receive a check from the French Government, or how much does he get per bushel and in what form does he get it?

Secretary **Block**. Let me respond to that, and if I have it wrong, Dick probably has more details on it. The situation really exists that there is a support level on hard wheat which is very high so the farmer is going to get $8.75 a bushel for his wheat. That's the support price. He is going to get that for his wheat if he sells it to the intervention agency. He doesn't get a check from the Government on it, as a rule, but that is where the support level is.

Senator **Lugar**. They sell it to a central market that pays him about $9 a bushel?

Secretary **Block**. I think they sell it to private outfits in a different way. Go ahead, Dick.

Mr. **Smith**. The way they take care of the export side of it is they pay a restitution to the exporter which makes up the difference so that enables him to pay the higher price, but the Government then pays him the difference in order that he would be able to sell in the world market.

Senator LUGAR. So the exporter would pay the farmer $9 a bushel for wheat.

Secretary BLOCK. Then the exporter gets paid by the Government——

Senator LUGAR. For whatever the difference is?

Secretary BLOCK. So that he can sell at the world price.

Mr. SMITH. Domestically they just pay the domestic price for it.

Senator LUGAR. But he sells it for less than the world price; does he not?

Secretary BLOCK. Just enough to get rid of it all.

Senator LUGAR. For the record, the price that the normal French farmer was getting was about $9 a bushel for hard wheat during this past season? What about corn prices in the European Community?

Secretary BLOCK. Yes. Generally, it has run about double on price. I cannot tell you precisely, but generally the corn price——

Senator LUGAR. So it's $5 or $6 a bushel?

Secretary BLOCK. Around $5 a bushel on corn, and hard wheat has run closer to $9 per bushel. This is roughly the way it is running. It varies a little bit on the value of a dollar in different situations, but——

Senator LUGAR. As you pointed out, Mr. Secretary, this policy although it greatly benefits the French apparently in relationship to the rest of the Common Market, disadvantages Germany greatly and the United Kingdom to some extent, and for reasons that we have already explored, of course, has hurt the United States and others.

But just to play the devil's advocate for a moment, is this something that is useful for French farmers, the French Government, anybody attached to that particular corporate enterprise?

Secretary BLOCK. Yes; I think it is useful for France. The end result is they have a great amount of production to sell. It must bring in large sums of money to their treasury and to their economy, and it is really not costing them because it has been, in many ways, funded by other countries.

In fact, in a lot of ways, the whole EC benefits from it because other countries around the world are paying the price.

Senator LUGAR. But within France, does this lead to a shift of income between groups of people? For example, in order to have this subsidy, even if it's useful externally, are there certain groups in France that are paying the price and farmers are benefiting?

Secretary BLOCK. Absolutely. The consumers are paying a large price in France.

Senator LUGAR. But the French Government, as a matter of policy, though apparently has determined that French farmers would profit and everyone else would essentially pay, and then taking on this aggressive posture has shifted a portion of the problem, I suppose, to other countries through the export vehicle.

Secretary BLOCK. That is right.

Senator LUGAR. Now, without trying to disrupt the whole hearing, why would this not be a useful policy for the United States to adopt? For example, if we were to do this sort of thing, what would happen generally in the world view?

Secretary BLOCK. If we did say put our prices up to $9 a bushel for wheat, as much as we export, we would have to have a great amount of Treasury's money. We would have to get the money someplace to subsidize it in world exports, if we wanted to sell it at a lower price than $9. We probably wouldn't because we would not have enough money, and could not find enough money to sell it in world markets for $6, $5, or $4.

So what we would do is the world price would move to $9 or roughly that. With the world price at $9, the world would raise enormous amounts of wheat. I dare say we would sink most of the continents right into the oceans with the kind of production we would see in wheat trying to take advantage of the $9 market.

And in a short order, with everybody raising all this wheat, there would be no market for that kind of a volume of wheat. The EC, at least at the beginning, they were a net importer, and now they are becoming an exporter—are not able to have that kind of influence on the world market. If they ever got to the point where we are, they would have that kind of an influence, and they would disrupt the world market even more than they are disrupting it today.

Senator LUGAR. So you can play that game only if you are relatively small?

Secretary BLOCK. If you are a little one; yes.

Senator LUGAR. And by being small, therefore, gain a certain amount at the margin at the expense of others, whereas if you are the giant in the situation, you disrupt the scheme altogether.

Secretary BLOCK. I think this chart, all of these charts—here is sugar; here is wheat; here is butter—they all demonstrate what happens in any economy when you artifically support the prices above the world market. The broken line is the EC price. The solid one is the world market price. They are all the same.[1]

The EC price is almost always incrementally above the world market price. The end result is dramatic growth in production, dramatic growth in production in butter, soft wheat, and sugar. We can demonstrate it in everything. They were the world's largest importers of poultry a few years ago, and now they are the world's largest exporter of poultry. You can see how it happens.

Anyone of these artifically supported prices there, you can understand the kind of production we have seen in the EC.

Senator LUGAR. During your discussions which were multidimensional—that is the Secretary of State was there and people interested in foreign military policy—did the subject come up that if Europeans are spending $36 to $40 billion subsidizing agriculture, that money is obviously not available for the common defense of NATO, for example, or fulfilling other obligations.

In essence, Europe is shifting that burden to us also while subsidizing farmers, and that is disrupting our market and creating further expenses. Did that come on to the table at all as far as this shifting of burdens and expenses?

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[1] See pp. 40–42 for the above-referred to charts.

Secretary BLOCK. I felt that that was an argument that Secretary Haig should make, and honestly, I do not think that in the formal session, it was brought up. I do feel, however, that it is quite well understood. It was not brought up in the formal session.

Mr. SMITH. No, but there have been discussions on this.

Secretary BLOCK. They have talked to this issue. It is well understood, and I have talked to Secretary Haig about it, and he is well aware of it. And it is a point that should be pursued—a good point.

Senator LUGAR. Mr. Secretary, I thank you for your initial response to the question. I had some idea what the response would be about the selective embargo, but your categorical assurances this morning that we will not have a selective embargo, I think is simply important to put on the record, and this was a good time and forum to do so, and I am grateful for your answer.

Secretary BLOCK. I am pleased to have a chance to make that response.

Senator LUGAR. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Senator Zorinsky?

Senator ZORINSKY. Thank you, Mr. Chairman. Jack, you previously mentioned the fact that the European Community has been costing us in the form of subsidies with regard to their policy in agriculture 50 cents a bushel on wheat.

With the current EC policy on subsidization of dairy products, what do they cost the American dairy farmer? Do you have any handle on that?

Secretary BLOCK. First on the wheat issue, it could be more than that. It could be less than that. I use this as an example. If you were to freeze your exports at the time when exports were 7 million metric tons which is probably right in here on the chart roughly, instead of the 14 which they are now exporting up here, that increment of 7 million metric tons has cost us 50 cents a bushel.

Now, on the butter side of it, or dairy products, I do not have any figures with me on that, but, you know, they are a major exporter of dairy products in the world, and this has all been accomplished through export subsidy. And it just—I think it is a dreadful practice, and I might also add that in the area of industrial products, this is not—this kind of subsidy is not acceptable, definitely not acceptable, but in the area of agricultural products there are exceptions that could be made, ways it could be done.

Senator ZORINSKY. In your estimation there would be an enormous cost factor to the dairy producers of America because of their——

Secretary BLOCK. No question about it.

Senator ZORINSKY [continuing]. Policy with regard to subsidy. Jack, I would also like to ask that inasmuch as a selective embargo is out with this administration, and they have pledged not to have that, we are in a very iffy situation right now concerning Poland and what economic sanctions we might, take, if, in effect Poland is invaded or has military intervention from the Soviet Union. Full embargoes across-the-board against Poland and the Soviet Union obviously would in my estimation, and in the opinion of many other people who are in positions to know, more adversely affect the agriculture industry than most other industries in this country even if it is a blanket across-the-board embargo.

In the event of such an embargo would you modify in any way the grain reserve program to alleviate the economic burden on the agricultural sector?

Secretary **Block**. I think in the event of this happening—we hope nothing like it happens—we would have to review the whole agriculture program and the tools that are at the disposal of the Secretary of Agriculture to see what could be done to shore up the situation because it would be very, very depressing.

Senator **Zorinsky**. But currently there are no contingency plans, or you have nothing formulated?

Secretary **Block**. Well, what we really have if we get the bill, are loan rates that really should serve as the floor. They always have. I do not think anyone would argue that they have not. They serve as a floor. And that would be in place, and the new loan rates are enough higher to help provide a safety net there for agriculture and the farmer and our grain reserve.

We might have to look more seriously at some land retirement programs that we don't like to look at, but we may have to look at something like that. We have talked about it, but we don't have anything specific on the drawing board. And, you know, I think we just have to wait, but we are looking at the situation.

Senator **Zorinsky**. You would be open to consideration of a modification of the grain reserve program and other aspects of it?

Secretary **Block**. We would be open to all kinds of consultations in light of this in addition to the ones we have been throwing around and working on ourselves.

Senator **Zorinsky**. Jack, you earlier mentioned that you were at the meeting in Europe with allies. I do not think I have to remind you about allies such as Canada that went along with us on the earlier grain embargo. You will recall that we requested them not to ship an excess of the normal grain supplies to the Soviet Union because anything in excess of their average would be displacing grain we were withholding.

When they chose the figure of 3.5 million tons which was the greatest amount they ever shipped to the Soviet Union in 1973 to use as their average, I think the word "allies" then becomes a very dubious term. For example, I got calls last December from Members of Parliament in Canada saying they were going to lift the grain embargo whether we did or did not.

My answer to them was to wait until the new administration has had an opportunity to evaluate the embargo and possibly they will lift it, and then you will not have to make that decision and that choice. I am sure you were confronted with the same type of conversations.

And so, you know, when I see all our allies helping us, it brings to mind the old saying "With friends like these, we don't need too many of the other kind," but I—in conclusion, I would like to ask you this last question.

The 1981 farm bill contains a program establishing a new agricultural export credit revolving fund. And the bill also urges you to request appropriations for the funds at the earliest practical date. Assuming the enactment of the farm bill, and I understand Monday it was 16 votes short of passage—I don't know how your numbers relate to that—but assuming its passage, when would you request appropriations for the revolving fund and would you agree that the revolving fund, if funded, would be useful in stimulating U.S. agricultural exports and expanding U.S. trade opportunities?

Secretary **BLOCK**. I certainly agree that the revolving fund looks good, and has some good and some very valuable facets—and could make a valuable contribution to expanding our exports. I do not have any specific plans on requesting any specific amount of money, but I would not rule that out.

I think we have to look at the total budget context and the total Government budget. There is nothing of any higher priority in my opinion than agricultural exports and the benefits they have, not only to the agricultural community but to the Nation as a whole.

Senator **ZORINSKY**. Thank you, Mr. Chairman, for the opportunity to be here, and John, you did a tremendous job under adverse circumstances, and I think you are certainly a commendable tribute as a Secretary of Agriculture to represent this country in those circumstances.

Secretary **BLOCK**. Very kind of you, sir. Thank you.

Senator **BOSCHWITZ**. Senator Andrews.

Senator **ANDREWS**. Thank you, Mr. Chairman. Mr. Secretary, during the selective embargo imposed by President Carter in January 1980, action against unfair trade practice by the EEC was suspended in exchange for European cooperation.

If trade sanctions are extended following any Soviet intervention in Poland, would the United States allow the EEC a free hand in subsidizing agricultural exports to Third World markets?

Secretary **BLOCK**. If the embargo were imposed with cooperation from allies, would we allow the EEC to——

Senator **ANDREWS**. See, we suspended this fair trade practice that says you cannot subsidize these agricultural exports, and are we going to do it again?

Secretary **BLOCK**. I cannot imagine that we would. I hadn't even given what you are talking about any thought.

Senator **ANDREWS**. It is kind of a key thing to what happened the last time around. I wanted to run it by you. It is nothing that you have to answer right now, but it is sure something to think about.

Secretary **BLOCK**. Do you know anything about that, Dick? I did not know there was any suspension in the fair trade practices?

Senator **ANDREWS**. We bought them off. We said if you will be polite and give the semblance of not undercutting our agricultural embargo, we will let you gut us in Third World markets. And it was the darndest thing. We picked up a couple of headlines, but we killed ourselves is what it amounted to.

Secretary **BLOCK**. We are not going to do that. What you are suggesting sounds——

Senator **ANDREWS**. What I am suggesting is what happened.

Secretary **BLOCK**. I just cannot believe that we would be able to consider that seriously.

Senator **ANDREWS**. It is what happened, and it is one of the things that just really cut us up in potential export. Again, what Senator Lugar said was so important, Mr. Secretary. Let me tell a little story to illustrate who pays for these price supports over in Europe.

As you know, I farm, as you do, and I have been on the subcommittee that funded the State Department for years and years. That is why I was happy to have you there in the negotiations along with the people from the State Department because they don't really understand agriculture and never have.

I recall I got a call from the Dutch Embassy through the State Department saying they had a group of 10 of their top farmers, and they were going to come over to this country, and they would like to look at my farm if they could. They are going to be in the region. They were going to be in Chicago.

Of course, by European standards, that is pretty close. Maybe they were out to see you. I don't know.

Secretary **Block**. That is not very close.

Senator **Andrews**. They said:

> These Dutch farmers raised sugar beets and wheat and barley, and that is what you raise, Congressman, and they would like to see it.

So, to make a long story short, they came out on one Saturday morning with their escorts.

We walked around and looked at the crop and looked at the machinery. We went into the house, and Mary put the pot of coffee on and we sat around talking. During the conversation, our son, who is running the farm, asked the question what kind of a price support program they had in the Netherlands. They came back with the answer that they support wheat at such and so and barley at such and sugar beets at all about twice what we were supporting.

And as you know, only your own son can come up with an observation like this. Young Mark came back with, "You must have a more competent Congressman than we have." They laughed, but then they came back with this answer. They said, "No, in the Netherlands, we only have"—and this is the point that goes with what Senator Lugar was saying:

> We only have 8 percent of our people on the farm. But we have found that when the farm economy does well, when the farmers are getting their cost of production, the rest of our economy does well. And we support farm prices not to support the farmer, but to support the whole economy.

And, you know, that rang a bell, and I asked the Library of Congress to dig in. I found that whenever farm prices in the United States approached full parity, the inflation rate here was much lower than usual. The unemployment rate was low and our economy was in good shape.

This parallels some of the ideas that they brought out. With that as a beginning, let me ask a couple of questions. When you responded to Senator Lugar, you said if we put the price, the world price of wheat at $9 we are going to get a lot of production. I would suspect the world price of wheat probably would be fairer at $5½ or $6 which is the cost of production in the more efficient countries: United States, Canada, and Australia.

But it raises the point—what is the world market price? We have been talking the world market price in wheat, barley, sugar, and beets. There is no such thing as a world market price. Do you say the price at which the majority of the people in this world buy the wheat, or do you say it as the price for wheat that has no home.

The cost of production of wheat in China—and you observed it when you were there—is about $30 or $35 a bushel when you figure their labor is worth $22 a month per person. And Japan sets the cost of production, not the cost of production support at $27. European Economic Community at $9. What is the world price of wheat? Have we ever really looked at that, and can we clearly say that the world price of wheat is some threshold price that we get as the residual supplier for the last that can find a home?

Secretary BLOCK. The world price is somehow reached as a consensus of countries, some that want that product; some that want to sell it, and it's almost like an auction. And if you go to an auction, you are going to get the price as established—by buyers and sellers. Somebody auctions things off, and the buyers are out there, and pretty soon the quantity of whatever is available is sold, and it is sold at a price that is established by supply and demand.

And it changes. It changes, and some people say, well, I cannot understand how the price can be worth 20 cents more this week than it was last week, or 20 cents less, which is what we are looking at.

But part of the reason it changes is because of the psychology of the buyers and sellers. You know they are either bullish, and they think there will not be enough so they are bidding high, or the next week, maybe they think there is going to be—or at least there is some danger of some trade interruption. Consequently, there will be too much on the market so the market goes down.

I think that the supply and demand is really working fairly well. I feel so badly about it when it goes down, but you know, we had very strong prices last year for a period of time in the summer as we were looking at, and this is a year ago, because we were looking at a short crop. Supply was going to be short. It might not be enough for demand. The price went up, and that was the world talking to us because we live in a world economy.

This year we raised a huge crop, and demand has been somewhat soft because of the world economy and the value of the dollar, higher interest rates, so the price has gone down. It has gone down even further in the last few weeks as a result of worries, especially the last week, this week, about—some worries about trade interruptions.

And I hope that those worries are unfounded. I think they probably are. But, still, the buyers and sellers as they reach this consensus of what the world price is are less aggressive as buyers because they think there is going to be too much.

Senator ANDREWS. But the world price is not the price that the average consumer in the world pays for wheat.

Secretary BLOCK. No, you are right because you are saying some countries have it priced way high, and this damages the world price. It weakens the world price because it reduces consumption.

Senator ANDREWS. That is right, but is it not true that more than half of the world's consumers pay far more than the so-called world price for wheat?

Secretary BLOCK. I would say you are right.

Senator ANDREWS. And it is an important point when we start talking about foreign policy as Senator Lugar brought up because this is the difficult point.

In Europe their export subsidy on sugar—because they have got a temporary surplus over there—is higher than the support price we wrote into the farm bill on sugar?

Secretary **Block**. I would not doubt that.

Mr. **Smith**. Their internal price is 25 cents and world price now is 12 cents so that is right, yes.

Senator **Andrews**. It is close. So they are paying almost in export subsidy the total price support that we have for the production of sugar.

Secretary **Block**. And they are the world's leading sugar exporter.

Senator **Andrews**. Yes. Now, the other——

Secretary **Block**. It is unbelievable.

Senator **Andrews**. The other point that I think needs making is that when the price of wheat went up to $6 or so in this country, I recall the head of the bakers made a statement on television. He said if the price of wheat keeps going up, we are going to have to charge a dollar for a loaf of bread.

I called him, and we had a very heated discussion. The gist of my conversation was that before there was a dollar's worth of wheat in a loaf of bread—and you know, there is not much else in a loaf of bread, a little bit of milk, and a little bit of sugar—but before there is a dollar's worth of wheat in a loaf of bread, wheat has got to sell for $66 a bushel.

And he said, "Well, I know that", but he said, "there will be increased costs of packaging and baking and retailing." With all of the interest in the increased prices for wheat, we figured that was a good way to explain why the price of a loaf of bread was going up.

Now, wheat has gone down from that $6 level, Mr. Secretary, but has the cost of a loaf of bread gone down?

Secretary **Block**. You know the answer to that.

Senator **Andrews**. It sure hasn't. It just stays and hangs up there. It actually goes up. In fact, there is only a penny's worth of wheat in a loaf of bread for every dollar a bushel of wheat is worth. And these are some of the things the American consumer doesn't know. These are some of the things that make writing a farm bill difficult around this table.

When you look at the place where most food is consumed, China and you realize their cost of production is $33 for a bushel of wheat, you recognize the fantastic opportunity that we have to aggressively price and merchandise our wheat.

But the final question that I have is, again, stimulated by a response of yours to Senator Lugar. You said that if we pegged the price, the world price too high that we would stimulate the production of wheat in this world to the point where it would sink the continents.

Now, if $6 is the cost of production—and these are USDA figures, not mine—in the most efficient countries, why would we stimulate that much production. Where would the production come from?

I am seeing nothing but articles in the press today about how we are mining our land resources, and we are. In my area, farmers are farming fence row to fence row. We cannot afford to do the conservation techniques we used to do.

We do not have the set aside. We are forced to get everything out of every acre we possibly can. I frankly do not know where we would find the additional wheat if the price got up to $6 or $6½ because we would have to take it out of other crops which, I would assume, would go up if wheat went up.

Where would you find those land resources?

Secretary BLOCK. I am convinced they are there. Fortunately or unfortunately, I don't know where.

Senator ANDREWS. Well, given the fact that the cost of production is, in fact, $6.

Secretary BLOCK. Well, somehow we are producing a lot of these products at the current prices, and I am convinced at $6 we would see more production. I am not so sure it would be more than the Nation can consume.

But when you get into the game of artificially setting that price, you do not want to make a mistake. If you make a mistake on the high side, you are going to have world surpluses, and, of course, if you make a mistake on the low side, you are going to have world shortages.

So really the best solution is to have a market system, and the market is telling us how much to produce. And the market is not telling us to overproduce. The market really is telling us now not to raise so much next year, and I suspect that we will not be raising so much in the United States, and we certainly will not be incouraging excess production if those countries that are willing to live with the world free market—with the world market. Artificially supported countries—they are the ones that are really throwing this whole thing into a mess.

If you look at the countries that live basically by the world market, they are the countries that have excess production to export. And so they have no incentive to have artificially high support because they produce beyond self-sufficiency anyway.

The countries that generally have high supports are those that are not self-sufficient. In some cases, they have a national policy to achieve self-sufficiency so they have higher supports to do this.

Senator ANDREWS. You produce grain in one of the most productive areas in America, in Illinois. And you are a good farmer, and you have good machinery, and you have a son out on the farm.

Now, would your son paying today's prices for machinery and today's prices for land and for diesel fuel, if he had a price thrown at him of $5.50 a bushel for wheat, go out and plant fence row to fence row? That is about the cost of production; isn't it?

Secretary BLOCK. We are not heavy wheat growers in Illinois. We are——

Mr. ANDREWS. Well, comparably corn. I mean you get a comparable price for corn. Let us say they ran what—$3.20 to $3.35.

Secretary BLOCK. All I can say it just depends on where we put the price. $3.25, no, I don't think it would encourage that much excess production if it were paid there. Depending on where you put a price, but I would say when you do get too high a price, as I noted when I was in Europe and toured the farms there, and I guess maybe we both agree on this, they are farming much more intensively, or at least more intensively than we are in their wheat production.

They are spraying these fields three times, and they are doing a lot of different things that we wouldn't do.

Senator **Andrews**. In China, I was on a farm that raised the same crops I raised. It was four times the size of my farm. It had 72,000 employees. And, boy, I tell you, there wasn't a weed in the wheat field. You saw that kind of farm. There wasn't a weed in the wheat field. And they hand-watered it, and they had fertilized it, and they picked off the bugs by hand, and they had massive production per acre. They were right at the potential for an acre.

But the cost per bushel was in excess of $30.

Secretary **Block**. Well, one other example, I guess, that was called to my attention, and I have used it before when the Soviet grain embargo was imposed, Argentina was not that big a supplier to the Soviets, but they did not go along with the embargo.

And they got an incremental increase in the price of corn. It was not excessive. It was like $1 a bushel. Wonderful. I would love to have $1 a bushel increase in my corn. But it was not enormous, but it was enough that they, in a period of time of about 1½ years increased their exports by some 40 percent, and they are plowing up lands in the prairies and moving in on this land. I think we could see a lot of land come into production in countries like that with a little higher prices especially if they knew they were going to be higher.

If they knew just what they would be, they could shoot for them.

Senator **Andrews**. Thank you, Mr. Secretary, very much for doing the job you are doing. I only hope you can convince some more of those people in the administration to go with you on some of these policies you are putting forth.

Senator **Boschwitz**. Are you done now, Senator?

Senator **Andrews**. Yes, I am through.

Senator **Boschwitz**. Let me pursue just for a moment one of the aspects of Senator Andrews' question. Approximately half the world is not paying the market price for wheat was the answer.

Let me ask what percentage of the countries that are importing wheat from ourselves are putting some sort of a levy or import duties that people in those countries are not paying the market price, the world market price for wheat. The question is asked from the standpoint that as, again, the Senator pointed out, that if their support level is $9, and if we were to give them the wheat, then they would have a $9 levy.

And if we sold it to them for $6, there would be a $3 levy, and so that the question is how many other countries, what portion of our exports of these commodities, wheat and corn particularly, are subjected to this kind of a levy so that if we did increase or have a policy that were to increase the price in such cases—I'm not sure exactly how one would bring that about—or if you were to increase the price and just reduce the levy and not reduce or increase rather the price to the consumer, it might be to our advantage.

So my question is what percentage of commodity exports in wheat and corn most specifically is met by that kind of a levy?

Secretary **Block**. Do you have a best estimate, Dick?

Mr. **Smith**. The best way to answer the question is I would guess most of the countries that export, or a high percentage, have high internal support prices, rather mechanisms——

Secretary BLOCK. That we export to.

Mr. SMITH. In other words, the price the consumer gets the product at is a lot higher than the world price right now.

Senator BOSCHWITZ. Therefore, if we increased the price of our exports to them, that would mean that they would impose a smaller levy rather than——

Mr. SMITH. That's right. As world prices move up, they would make a smaller levy.

Senator BOSCHWITZ. And would not increase the prices of the grain to their consumers. So there is a certain temptation, as the Senator from North Dakota points out, to say why should they get that levy and put it in their pocket, and why don't we do something for our farmers. We will pursue that a little bit. Perhaps, we will pursue that together, Mr. Secretary and Mr. Smith, together with Bud Anderson.

Mr. SMITH. The only question is if we start setting those prices artificially for a particular product increase, you are going to get a response to production which the Secretary already indicated in the case of grain.

I think the best example of this is what happened to cotton. We did exactly that over the years, and we kept the price—back in the 1960's, I remember when I was down in Central America, we kept that price ourselves above the world level, and it just stimulated production around the world, and before we knew it, we had something like, if I recall, 16 million bales of cotton in storage, and we were having to cut back our production because everybody else was expanding theirs and shipping it to the world market.

So anytime you set that price above what supply and demand is determining, you are going to get that production response.

Senator BOSCHWITZ. I agree that more corn and more wheat and more commodities and other products can be coaxed from sources of production, whatever they be. And I would like, however, to explore that with you, gentlemen, and so that we can look into that. One other comment that the Senator from Indiana made. And that was that the Europeans really are not that large a shipper so that the subsidies perhaps don't have as large an effect on the market.

If they export 14 million metric tons, that is already quite a large amount. We export in wheat how many tons, Mr. Smith? 40 million tons.

Mr. SMITH. The total trade in wheat is about 100 million tons, of which we have about 50 million tons. Do not forget a lot of the other commodities that they are involved in. They are now the largest beef exporter. They are the largest poultry exporter. They are the largest sugar exporter.

And when you take it in total, it's a major source of exports.

Senator BOSCHWITZ. When you take a commodity of any type, and you change the supply or demand by 7 million tons, or 7 percent, normally the reaction in price is 20 percent, 25 percent.

Mr. SMITH. It is very significant at the market, clearly.

Senator BOSCHWITZ. The 14 million tons that they export or the additional 7 million tons that they export is a very significant figure on the world marketplace.

Mr. SMITH. Clearly in terms of price effect.

Senator **Boschwitz**. Well, Mr. Secretary, unless my colleagues have further questions, I have none. I will do my best to help you rally the folks here in the Senate to be toughminded in their approach to these problems. We don't indicate, as you indicated, a trade war, but we do not want a situation where we have an inequitable situation that causes our farmers more grief than they already have to put up with.

We thank you very much for coming this morning, and we stand adjourned.

[Whereupon, at 11:45 a.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, December 17, 1981, in room 324, Russell Senate Office Building.]

U.S.-EUROPEAN AGRICULTURAL TRADE

THURSDAY, DECEMBER 17, 1981

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:52 a.m., in room 324, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senator Boschwitz.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. We continue this morning our hearings on the European Community. As witnesses this morning we will have the U.S. Trade Ambassador, Hon. William Brock; Assistant Secretary of State for Economic and Business Affairs, Robert Hormats, who was also in Europe as was Ambassador Brock; and then Hon. Lionel Olmer, who is the Under Secretary of Commerce. Unfortunately, the Secretary of Commerce got held up in London due to bad weather, and therefore was unable to make it to the meetings with respect to the European Community and its agricultural policy; but the Under Secretary is coming, nevertheless, to state the position of his Department.

Our first witness this morning is the chairman of the Foreign Relations Committee, Senator Percy. Senator Percy is coming from, of course, Illinois, one of the principal agricultural States. Our overall agricultural trade is $43 billion, our exports, and $3.6 billion of that emanates from the Senator's State of Illinois. So he certainly has a very keen interest in foreign trade.

Senator Percy, we welcome you here this morning, and we are glad to receive the testimony.

STATEMENT OF HON. CHARLES PERCY, A U.S. SENATOR FROM ILLINOIS

Senator PERCY. Mr. Chairman, I am very pleased to be with you, and I do wish to commend you for holding these hearings. The Congress adjourned yesterday, and this is now a good time to look forward to the next session, the final session of this 97th Congress.

I believe you have put together a top-notch group of witnesses. You started out yesterday with Secretary Block and continue today with Ambassador Brock and Bob Hormats, both of whom are totally dedicated to expanding the trading interrelationships between

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countries and building on our export and import levels. We will also hear today from Lionel Olmer, who is a former executive of Motorola in Chicago, an expert in foreign trade all his life.

All of us Western nations now face a recession, inflation, unemployment, and high interest costs, which are common denominators but they don't necessarily bind us together. If misery likes company, we all have it. And always in a recession there is a tendency inside of countries, no matter what their history, to become inward looking. They look at the unemployment, they look at the high interest costs, they look at sagging sales, and they start thinking in terms of, "Well, let's protect ourselves and take care of ourselves." They forget that we have been working together for 40 years, through six Presidents to recognize that if the world is going to progress we've got to be an interdependent economy. We simply can't become protectionist even when the pressure gets tough.

So I think these hearings are extraordinarily important. We have to remember that in the Great Depression, in fear we enacted the Smoot-Hawley tariff. And that tariff, at the beginning of that depression, deepened that depression. It did more to contribute toward the decline in the world economies than any other single action. And protectionism will simply not be an answer to today's recession. It wasn't then, and it certainly is not now.

Mr. Chairman, I share your urgency and the legitimate concerns that you have frequently expressed about the common agricultural policy. Whether we represent wheatgrowers in Minnesota, poultry breeders in Arkansas, citrus producers in Florida, or grain producers in Illinois, we should and must be concerned about the alarming protectionist signals that we are receiving from Europe. Exports are critical to the economy of my State of Illinois as they are to your State of Minnesota.

As I flew over our State yesterday, from one corner to the other, the message was once again brought home: one out of every two agricultural jobs in Illinois is dependent on exports. From 1971 to the present the value of Illinois agricultural exports quadrupled from $670 million to $3.6 billion. That represents 9 percent of all U.S. agricultural exports today; 120,000 farm jobs depend on exports, compared with only 39,000 in Illinois a decade ago.

These export markets in Europe take on even more importance this year with a record harvest, with commodity prices sinking and interest rates remaining high. Our farmers are quite rightly concerned. We must send them the message that we will fight to retain our export markets. That is why 2 months ago, after conferring with you, Mr. Chairman, Senator Helms, and others, I ordered a Governmental Affairs Subcommittee hearing in Urbana, Ill., in the heartland of America's Grain Belt. Despite the harvest, over 200 of my rural constituents filled every seat in a meeting room on the University of Illinois campus. They left their tractors and their silos to voice their concerns about the loss of export markets in Europe.

A number of them commented on the fact that ever since the end of World War II we immediately began opening up our markets, sharing our technology, exporting people all over the world to help other people grow more grain, to build a better product, and to find ways to rebuild their own economies. We did this because we felt it was right. We felt it was right for the free world to become more interdependent. And yet, now we see protectionism coming from the very countries that were recipients of that assistance and help. We see them trying to bar American products from coming in, at a critical time when we need a more favorable balance of payments to provide for our common defense. After all, the defense of the free world does depend to a large extent upon the United States of America. Many of the countries that are protecting their domestic products and excluding American exports are the very countries that are spending a tiny fraction of the GNP that the United States is spending today on a common NATO defense.

So there was anger on the part of the farmers when they saw the condition that they were facing, with large crops and restrictive measures being considered abroad that could keep our product out of those markets. We had witnesses from all of the major Illinois farm organizations ranging from the Farm Bureau to the American Agricultural Movement.

Tom Hammer from USDA, and Don Nelson from the Office of the Trade Representative appeared. They were concerned about the threat to our sizable exports in soybeans and corn gluten feed in Europe. Soybean exports alone to Europe totaled $4 billion last year, and the trade in nonfeed grain substitutes like corn gluten feed totaled close to three-quarters of a billion dollars.

I share their consternation over an unacceptable decision reached by a General Agreement on Tariff and Trade panel that upheld the right of the Spanish Government to limit the marketing of soybean oil crushed from imported soybeans, mostly from the United States. Had this panel report been adopted, it would have established a precedent in international trade that would have been a disaster for our soybean industry and for other industries in this country.

Fortunately, 26 nations spoke out against the adoption of the panel's recommendation. For only the fifth time in GATT history a GATT panel recommendation was not adopted. Ambassador Brock and Secretary Block worked behind the scenes to build support for our position.

Mr. Chairman, you share a seat on the Foreign Relations Committee with me. I have never done this before; but on this one issue I was so concerned, I contacted the ambassadors of 40 countries—40 countries—ahead of time to tell them the serious concern we had with the GATT panel report. And if this report had been accepted, I can't help but feel pressure for retaliation would have been very great indeed. The Europeans depend upon our markets here. A large part of their product come to these markets. We open our doors freely. And they must not turn around and impose restrictions on our product.

I was pleased indeed, how many of those countries gave me an assurance they would stand with the United States of America. We are not alone. The nations of the world really do not want protectionism.

The other major concern pertaining to corn gluten feed, a byproduct of the corn wet-milling industry, should be commented on. At one time the Community proposed to add a variable levy to our corn gluten feed exports, eliminating the competitive edge they now have over European feed grains. This would have been in contravention of the zero duty we negotiated many years ago. After Secretary Block spoke out forcefully against this proposal, it was deferred—we hope—permanently.

Yet we are not out of the woods. We have already heard about the problem of export subsidies that threaten our traditional markets in Latin America and Asia. The threat of a vegetable oil tax is ever present with the Community facing a torrent of cheap Spanish olive oil this decade.

Mr. Chairman, I have always believed in freer trade. I have testified before the Senate Finance Committee and the House Ways and Means Committee for over 30 years now, always taking a position in favor of freer trade. As a photographic equipment manufacturer, I testified against the Photographic Manufacturers Association, who for years always tried to get higher tariffs. Through the years we have beat down tariffs on our principal products from 40 percent to 5 percent, and I still see Polaroid and Eastman Kodak and Xerox surviving somehow. We didn't need protectionist tariffs. In fact they would have destroyed our industry.

Now we've got tough competition. But if as a businessman I could work for freer trade, help the Japanese with their business and the Germans with their business, I think in good conscience I could come now and say, "This is not the time for protectionism. That was over in the thirties. We proved what it did to the world economies. Let's not turn the clock back that way."

Mr. Chairman, I would ask you now to accept the full text of my statement, that it be incorporated in the record with appendices.[1]

Finally, I would like to simply say that I do remain committed to freer trade. Yet, I am hearing from my constituents a desire to retaliate. Retaliation is a strong word. I do not use it lightly. Yet, we cannot let these hard-won markets slip away because our trading partners willfully violate their trading agreements.

Additionally, we must increase our commitment to agricultural trade by elevating the importance of agricultural issues before the GATT. Value-added products must be promoted whenever possible by our trade negotiators as they provide additional processing jobs here in the United States and provide general help to our economy. Along these lines, I applaud the recent action of the State Department to instruct our commercial attachés to stress the sale of processed food.

In conclusion, negotiation is the only answer, not confrontation. That is why I applaud the decision to send a Cabinet-level delegation to Brussels. We should encourage this valuable dialog to continue. And I am confident of one thing, Mr. Chairman. In all the years I either dealt with government or have been a part of government, I have never seen as competent a team as we had. Though we haven't always seen eye to eye on some trade matters, I do think the State Department, under Secretary Haig's guidance, has been now more oriented toward commercial enterprise. The Department recognizes that it has a major role in trade promotion, just as you and I and other members of the Foreign Relations Committee have this year tried to emphasize the importance of trading opportunities. Through that committee we have also fought to protect those markets for ourselves and for the whole free world.

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[1] See pp. 91–106 for the perpared statement of Senator Percy with accompanying attachments.

Certainly Ambassador Brock is well equipped, knowing both sides of the street in a sense. He is an extraordinarily able man. Commerce Secretary Baldrige is doing an outstanding job and I have enjoyed working with him this year. One of the ablest men in government that I have known, is Robert Hormats. I have already mentioned Lionel Olmer,who is one of the most capable trade negotiators from American industry. I've known him for years. We have a fine team. We are going to do a good job. And I mention this only to give assurance to farmers and to business people who are concerned that we are not about to walk out on the great opportunities for export trade.

Trade is a two-way street. They can't send the boats from Japan over here full and have them go back empty. If they come over with Sony television sets and electronic equipment, they have to go back with coal, or grain, or something else. And that's the battle we are fighting for. It is not just for ourselves, it is for a system that has been carefully and intricately worked out over a period of 40 years. President Dwight D. Eisenhower asked three of us many years ago to form the Committee for a National Trade Policy. I became legislative chairman of that committee in the early 1950's. We have waged a steady, bipartisan battle, with every President and every Congress on record. This we have done to rebuild the free world. Let's not destroy that structure just because the pressure gets a little tight on some parts of American industry today.

Now, let's work together for a common objective.

I again thank you very much indeed for the opportunity to testify.

Senator BOSCHWITZ. Thank you, Senator. Your entire statement will, of course, be included in the record. What you testify about is very pertinent. Sometimes you say you prefer a negotiation to a confrontation. Sometimes there is a rather narrow line between those two things, but nevertheless your testimony, particularly as it is directed to the vegetable oil market, is pertinent here this morning. With the probable inclusion of Spain and Portugal in the European Community in the coming year or two, that's going to become a very serious problem indeed for our trade, and you very correctly point out the issues that we will be facing.

Thank you very much for coming, and we certainly invite you to remain if your schedule permits. And, if not, we will see one another at lunch.

Senator PERCY. Thank you very much indeed, Mr. Chairman.

Senator BOSCHWITZ. Thank you.

Ambassador Brock, we welcome you to our hearings this morning. Do you have any assistants with you who you wish to bring to the witness table?

Mr. Ambassador, we have known one another for some time, and indeed it has been a very warm relationship and a very productive relationship. I was so pleased when you became the Trade Ambassador. For a while I thought you would be selling candy as you went, and I hope that part of it has been successful.

The business with the Economic Community in Europe is of particular moment. Last night in one of its final acts the House of Representatives passed a 4-year farm bill, and on the way in this morning I heard a report on the radio about the controversial price support system and that it was an $11 billion farm bill. Well, that $11 billion farm bill is, of course, spread over 4 years, so that the cost is somewhat less than $3 billion a year. And during that 4-year period the cost to the European market in supporting their farmers will be somewhere between $150 and $160 billion, approximately 13 times as high. And probably the cost will go up, because their production has been going up.

But that is a stark contrast, when you think that here in our country the much-maligned farm bill—maligned from all sides—costs $11 billion over 4 years, less than $3 billion a year, and in Europe the farm supports are going to be probably $170 or $180 billion over the next 4 years when you allow for inflation and allow for the growing production in Europe.

That has a number of impacts upon us, not only on the agricultural community but, as Senator Lugar pointed out yesterday, on our defense commitment. This year we are paying a $400 million price tag in deficiency payments on wheat. A Michigan State study pointed out that in the event the Europeans had not come onto the world market with an additional 7 million metric tons of wheat, which they subsidized in their export, our farmers would have received 50 cents a bushel more, and that would have been $1,700 million more into the farmers' pockets while at the same time preventing the necessity of a $400 million deficiency payment.

So the cost of these farm programs in Europe is not only enormous to themselves but is enormous to our farmers as well. I calculate roughly, from all I know of European budgets, that that farm program is approximately 40 percent of their defense budget. Our farm programs in this country are somewhere between 1 and 1½ percent of our defense budget. Because of the enormity of the cost of their farm programs, I'm sure this is reflected in their ability to provide for their own defense; which means that we, once again, get pulled into the act, and it costs the American taxpayers not only in deficiency payments but in added defense costs for the European Community.

All these things are on our minds in this committee, and I know they are on yours. We welcome your testimony this morning. We know that it will be directed perhaps at more mundane things like soybeans, soybean meal, and corn gluten feed that Senator Percy talked about. That's really our business, not defense. But the stark contrasts between our farm programs and their farm programs, our commitment to their defense and sometimes a feeling of their lack of commitment to a common defense is really what troubles this committee, while, at the same time, the possibility of their raising additional barriers to the exports that we count so heavily upon.

We welcome you, Mr. Ambassador. And we welcome your testimony at this time.

STATEMENT OF HON. WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Ambassador **Brock**. Thank you very much, Mr. Chairman.

I think, rather than going through a very formal statement, perhaps I could just summarize some of the discussions we had on this recent trip to Europe, focusing mostly on the meeting that we had with the European Commission, which both you and Senator Percy have mentioned.[1]

We very consciously sought to demonstrate as visibly as possible our support of the Commission by having a meeting at the very highest possible level: The President of the Commission and several of their vice presidents, Secretary Haig, Secretaries Baldrige, Block, and myself. I didn't know, myself, the enormous economic difficulties facing Europe, not dissimilar to those difficulties which we face here. We also know that the unity of Europe and the maintenance of the European Community as a community is important to us as it is to them, and we wanted to not only make a statement to that effect but to demonstrate in a very tangible fashion our willingness to do whatever we could to be supportive and to work with them in a mutual resolve to manage our trading difficulties.

In this regard I would like to say at the outset how much I appreciate your own leadership. The letter which you wrote with 50 other Senators was enormously reinforcing of the message we carried to Europe and of great value in our conversations, and I appreciate it very much.

Fundamentally, as you pointed out, they have chosen a different tack in agriculture and agricultural trade than this country. The current level of subsidies from the European Community would run on the order of $15 billion, and when you add the national support programs for farmers, the total approaches $40 billion, and continues to have all the ingredients for further increase. The only reason they have been able to hold the European Commission's contribution at the present level is because of the slight increase since the program began in farm prices, which has narrowed the gap required for subsidy. But if you look at farm prices today and how low prices are, I think you would have to be concerned about the possibility of really substantial increases, a financial burden upon European consumers and European taxpayers.

Obviously, our concern is that, while we have no right to suggest to the Community what agricultural programmation to develop for their own domestic purposes, that's an entirely sovereign prerogative of those governments, we do have the right to insist that the effect of policies chosen by our trading partners do conform to our international agreements. And we have agreed among ourselves for these 40 years, that Senator Percy mentioned, that governments should not intervene in the market process in such a fashion as to injure trade partners or to displace third country market shares of trading partners, that the process of competition should be allowed to work, the trading system should be allowed to work.

While we talked about steel, as you would assume, textiles, and a number of other industrial and service sector issues with the Commission, we spent clearly the majority of the time on agriculture, because that is the primary point of division between us.

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[1] See p. 106 for the prepared statement of Ambassador Brock.

Secretary Block was very effective in his presentation of the American viewpoint. Commissioner Dalsager was equally eloquent in arguing from the European point of view. I found in at least some of the countries some really astonishing arguments. We were accused in one conversation of being the cause of the problem here in the United States. The argument went something like this, if you can follow the logic; I had some difficulty. But the logic was that we were selling corn gluten feed at such a low price that it forced them to subsidize their grains for export. I asked, "Didn't the basic problem occur because the price support was raised to such a high figure that it then made alternatives, or substitute products such as corn gluten, an attractive economic alternative?" At least the individual I was talking to in that particular country said, "Well, our price support program is irrevelant. We have to do that for our social purposes. We have to do that because we would not be able to maintain our farmers if that were the case."

I only use this example to illustrate the enormous difference in the way we are approaching it. Under this administration and the Congress, the farm bill that we had enacted here in the United States is clearly designed to allow the market system to work. There are a couple of exceptions in the farm bill that causes some concern, but fundamentally that is a market-oriented bill. It is an effort to allow our farmers to be as productive as they are capable of being and to sell their goods wherever they want to sell them.

The European approach is substantially different. They have a very heavy support program, very high-priced programs. I honestly don't know how they afford them; I don't know how their consumers can pay the prices they have to pay; I don't know how the taxpayers can pay the prices they have to pay. But, again, that's their decision, as long as it does not replace U.S. markets abroad. In fact, it is replacing U.S. markets abroad.

Senator BOSCHWITZ. I understand that they do not have a sense, or at least pretend not to have a sense, that their price support system brings about the production, which is, of course, the underlying core of the problem.

Ambassador BROCK. Any price support program above market value will increase the qualities of production. Europe was a net importer of farm products when they began this program. Today they are the world's largest exporter in a number of product areas, and their surpluses are mountainous.

Senator BOSCHWITZ. In the same areas where they were the world's largest importers.

Ambassador BROCK. In some areas, that is correct. Sugar is a good example, and poultry. It goes everywhere. If you look at the Middle Eastern poultry market, not too many years ago, because our poultry farmers are so productive and so competitive, and we have such a high-quality product, we had 86 percent of that market in the Middle East. Today we are down to 11 percent. The Community's market share was I think, somewhere around 5 to 7 percent—I have forgotten precisely the number. Today they are at 48.

Now that is clear evidence of a displacement of market share as a consequence of the subsidy programs, and that's what concerns us.

Senator **Boschwitz**. Just as a matter of interest, who has the balance? That makes about 60 percent. Israel has quite a bit of it.

Ambassador **Brock**. Israel has a very substantial market share. Also Brazil.

Senator **Boschwitz**. It is interesting that currently chickens move in trade between those nations despite their differences. Pardon me, Mr. Ambassador.

Ambassador **Brock**. No, I think that's the basic point I wanted to make, that we understand the problems that Europe has. We feel very strongly that European unity is not only important to Europe but to us. We will take whatever actions we can to support that unity, and we will take whatever actions we can to support the European Community and the European Commission. But there are absolute limits to our ability to accommodate when in fact the end product results in loss of opportunity for our own people in a fashion that is not consonant with international agreements.

As I said to them, we are not trying to attack the CAP as a domestic policy, but we do have a right to defend our interests in terms of the impact of any domestic policy on international trade, and we expect to do that and we intend to do that. The steps that we are taking, the filing of some cases before the GATT, the very vigorous representations we are making before the Community are simply a statement that the United States and this administration will act to defend our interests, and we will do so within the full range and panoply of international courts. And I think that's where we are.

We have a number of responses, some of which were encouraging in the sense that they do so, that they are trying to move their support level down more in conformity with market prices worldwide. But my own instincts would suggest that that is going to be very difficult to do, it is going to take time, and the next few months and even the next few years are going to be years of some considerable difficulty, and we have to be very careful that we don't walk into a trading war which nobody wins.

Senator **Boschwitz**. Mr. Ambassador, I agree that we don't want to get involved in a trade war. I believe that one of the ways to prevent it, of course, is to let them know exactly where we stand so that they don't think that they can take advantage of us and go so far down the road that a trade war almost becomes an item of inevitability.

I hope that they do bring their support prices down. I think it's improbable from all I know of that. And, of course, the farmer there has considerably greater political clout. With a population base somewhat larger but not much larger than the United States, they have 22.4 million people who are agriculturally employed on the farm, while we have 3.7 million. So, their farm lobby should be, at least in numbers, much more potent.

I wonder if you would comment on the presence in Europe at one time of not only the representatives of the Secretary of Commerce, who couldn't make it but who was scheduled to be there, but yourself and the Secretary of State and the Secretary of Agriculture?

We know very well that there is sometimes competing and conflicting interests, particularly in the Department of State and the Department of Agriculture. So what was your sense of the unity of purpose that the United States appeared with? What was your sense that that unity of purpose created or the impact of that unity of purpose upon the Europeans?

Ambassador **Brock**. I think it was extremely helpful. There just is no difference among the several affected agencies with responsibility in this area. We have had a very active leadership role taken by the Secretary of Agriculture, John Block. He has just been magnificent. In the presentation of the American case he has been very aggressive but very firm and very honest in his approach. We have had just outstanding support from the State Department. Senator Percy mentioned this, but I would like to, too. The Secretary of State himself was there, Assistant Secretary Hormats was there, actively engaged in the conversations, actively endorsed and supported the U.S. position.

I think your point is an important point. They have to know that we in this country are speaking with one voice on this issue. There is no doubt about that today. I think that was one of the primary effects of this particular meeting.

Senator **Boschwitz**. I agree, and I trust that will continue, because the Europeans undoubtedly will want to test that unity on this side. I trust it will be a continuing unity.

Let me ask specifically. Our principal problems that deal with soybeans themselves, which is approximately $2.5 billion or $2.6 billion, soybean meal, soybean cakes, altogether the soybean exports in 1981, and byproducts, totaled close to $4 billion, and then the corn gluten feeds to which mention was made and to which you also made a reference, I think that farmers in this country and this committee are principally concerned that we retain a levy-free status to those items. I think in the case of corn gluten there is a small tariff; is there not?

Ambassador **Brock**. I don't think so.

Senator **Boschwitz**. None at all?

It is, of course, what we hope to achieve and retain, that soybeans and corn gluten feeds remain in that status, not having been covered by the original formation of the European Community approximately 20 years ago.

How do we do in that regard? Specifically, does it appear that we are going to still have open markets with respect to soybeans and byproducts of soybeans and corn gluten feeds?

Ambassador **Brock**. Yes; we fully intend to do that. There have been pressures from one or two individual countries on the Commission to impose some restraint upon that trade in the form of either duties or some other restraint. We have an agreement that has been in effect for many years now on those products. "There shall be no restraint on trade." We intend to adhere to the agreement, and we expect our trading partners to do likewise. If any action were taken to violate the agreement, we have full right under the international accords to impose compensation, or retaliation if you wish to use the word, of a similar amount, and we can choose the industry on which the compensation would be imposed.

I just don't think that is at all a happy choice. We would have absolutely no choice other than to take it if action were taken to break the agreement, but both sides have to understand that everybody loses in one of those, and we do not intend to lose.

Senator BOSCHWITZ. Fine. That is very reassuring. And as you know, you certainly will have our support and the support of the Senate. You referred to the letter on which I think I got 50, 51, 52 signatures. Given another day, I think I could have gotten 85 signatures.

Ambassador BROCK. Well, 50 signatures in 24 hours is pretty good work for one Senator. I commend you for that. I know how tough that is.

Senator BOSCHWITZ. So I think you will find support here.

Senator Andrews yesterday made some interesting comments concerning the so-called world price of our principal agricultural commodities: wheat, corn, and soybeans. He asked the Secretary of Agriculture for a definition of that world price, because he felt that the definition was kind of—that we were the court of last resort, that we were the only country that has any adequate storage facilities, and as a result of whatever demand is left after everybody else dumps on the world market then it comes to us, and that demand in recent years has been quite large, as we have discussed.

Is there any opportunity in your mind to increase to some countries the price of the products that we sell them? Let me rephrase the question just a little bit. If we sell wheat to many of our trading partners, including the European Community about whom we are talking this morning, if we sell it to them, using Senator Andrews' example again, for nothing—we give it to them—they would nevertheless put a levy on the $8 or $9 a bushel to bring it up to their supported price. If we sell it for $3, they would add $5 or $6. If we sell it to them at $4, they would add the difference between their support level and the price for which they pay for it. So, therefore, the question comes: Why should we not charge them more? Because there seems to be a lack of a true world price. Most of our exports in grains encounters those same kinds of circumstances. For instance, Japan was noted yesterday, that a bushel of wheat in Japan is almost $28, after all of the levies and the trading additions are made to it. Is there not some way, have you found any way, would there be any way by which our farmers might realize more per each bushel so that these levies would simply be reduced?

Ambassador BROCK. I'm not sure that I know how to answer the question, Senator. The only way you could get to that sort of a system, that I can envision immediately, would be to have the Government acting as the marketer for American farm products. I'm not sure anybody in this country would support that.

You also would have to begin to talk, as some have suggested in Europe, about allocating out market shares. I would be most uncomfortable, as a matter of fact I would be totally opposed, to try to say that X-country has X-percent of the world market and we have Y. I think it should work on the basis of market principles. And perhaps that's because we are the most efficient and productive people in the world in agriculture. We have argued for a long time for the use of market principles. The problem is that we don't live in a totally market-oriented world.

In all candor, I don't know how to resolve that within our trading system. The world price of any particular substance is not determined by an individual government but by the marketplace itself. There is a very free exchange of those goods. What happens, and you are correct, that governments may take an action to modify that price in terms of government policy within that particular country. But there are enough competitors in the world and there are enough purchasers in the world to make any control system, I think, probably unworkable. I think the hazard we would face is that it would act to the disadvantage to Americans in the long term, and I would be very cautious about that.

Senator BOSCHWITZ. I share your viewpoint, and yet I share the frustration of many who watch other countries raise the prices of our agricultural commodities that we are so capable of producing.

Ambassador BROCK. I agree with that. I still believe that the ultimate answer comes in trying to enforce the international regime. One of the major points we made with the European Community, both at the Commission and the individual member states, was that we intend to see agriculture placed on the agenda of the GATT Ministerial. Because part of the problem stems from the fact that in previous rounds of negotiations agriculture was set aside as a special category, and there were no adequate safeguards to guard against export subsidies, for example, in agriculture of a similar nature that do help us maintain a free system in the trade in industrial goods. The trade in industrial goods is covered by a much more comprehensive and stringent code of conduct than that which covers agriculture.

One of the intentions of this administration is to agressively try to move agriculture into a more comprehensive coverage under international codes that would stop these practices which are so disadvantageous to American farmers.

I think it is also important that other countries should begin to take a look at the need for more adequate storage facilities for their own reserve purposes. I think it is just good economics for them, but it also would help to stabilize the system itself and some of the adverse practices that inhibit the free operation of the system.

You know, Jack Block has been such a tremendous fighter for our farmers in these conversations around the world. I think that kind of very agressive, positive stance, coupled with a willingness to insist upon a two-way street for a fully reciprocal kind of trading relationship and upon adherence to agreements that do exist, can in the not too distant future move us into a better circumstance. And that's our goal.

Senator BOSCHWITZ. Well, Mr. Ambassador, you may have touched upon two areas of possible solutions for the problem: No. 1, the analogizing of agricultural products to manufactured products, in which there is a stricter regimen for international trade and which prevents some of the inequities that occur in agricultural matters, and we will examine and make some comparisons in that area; and the second is the storage capacities. The European Community, as you know, grew out of the fact that there was starvation in Europe after the Second World War, and really in the European Community there was an effort to increase production to prevent that from recurring. And yet they have very inadequate storage facilities to lay something aside in the event they once again have problems.

I have supported the idea of helping Third World nations, for instance, not only purchase our materials but create storage facilities. So those two areas will be fruitful areas for examination by our committee and subcommittee, and we look forward to perhaps having you once again for the purpose of pursuing that.

Ambassador BROCK. We would very much appreciate your support in those areas. You have an awful lot of expertise that would be of value to us, and we would appreciate any analysis that you would do that would, hopefully, complement our own. Perhaps we could work on it jointly. We would like the opportunity to do so.

Senator BOSCHWITZ. I have just been asked to ask a question for the Millers National Federation:

> Last Monday, the GATT Subsidies Code Committee in Geneva met to discuss the U.S. wheat flour case against the European flour export subsidy. Would you please bring us up to date on the results of Monday's meeting and give us your assessment as to when we can expect resolution of this complaint?

Ambassador BROCK. Well, finally, after a considerable period of time, we did achieve the first and most important step, and that's the formation of a panel. I don't think we've gotten the composition of the panel established yet, but there is an agreement to form the panel to hear the complaint and make a decision on the matter. I am very please with that step, frankly. We will now have to trust to get the panel constituted. It will be difficult, as they usually are, but we are on the track now for a final decision in the matter, which we will press very aggressively for.

Senator BOSCHWITZ. Any idea when the final decision will be? What kind of a timetable exists for that?

Ambassador BROCK. I am told that it could be 7 or 8 months.

Senator BOSCHWITZ. Well, we certainly will want to monitor that as well. I know that it is a matter of importance to the Millers Federation.

Mr. Ambassador, we thank you very much for appearing this morning.

Before we have our next witness, we will have a 3-minute recess.

[Whereupon, at 10:48 a.m., the hearing recessed.]

AFTER RECESS

Senator BOSCHWITZ. We are going to resume our hearing. We have with us the Assistant Secretary of State for Economic and Business Affairs, Robert B. Hormats.

Mr. Secretary, we were very pleased with your attendance together with Secretary Haig at the meeting in Europe that concerned principally the European Community and its agricultural policies. It is my understanding that you have considerable knowledge of this and were a very effective and tough-minded spokesman with respect to it, and that that indeed, I think, was particularly impressive, because we are all aware of the fact that the State Department and the Agriculture Department have not always seen eye to eye. The fact that you were there and that you were a spokesman of agricultural interests, so to speak, and were knowledgeable about it, certainly made quite an impression in the agricultural community.

Prior to Ambassador Brock speaking, I noted that last evening in one of its final acts, by two votes, the House of Representatives passed a 4-year farm bill that was $11 billion. When I came in this morning, listening to CBS, I heard that "these price support programs were very controversial." And, indeed, they are. And I pointed out in my earlier remarks that $11 billion was spread over four years and would be somewhat less than $3 billion a year. During that same 4-year period the probability is that at present levels the Europeans will spend not $11 billion but $150 or $160 billion in support of their farmers, and that in all probability, not being constrained by a 4-year bill that will squeeze down that growth due to inflation, it will be closer to $175 and perhaps $180 billion in farm supports—15 or 16 times as great as the farm supports that are in effect in the United States.

This has a number of impacts, as we have heard in the hearings. A Michigan State study pointed out that the dumping by the Europeans of 14 million metric tons as opposed to their customary 7 million that they have had as a share of the world market in wheat has caused our prices to go down 50 cents a bushel, which is $1,700,000,000 over our crop, that it has caused our Government to pay $400 million in deficiency payments to wheat farmers, and that these are all costs borne by us due to the policies of subsidization that the European Community has developed.

Furthermore, it is interesting to note that their agricultural costs probably are 40 percent of their defense budgets, which is a remarkable statistic when you consider that our agricultural costs are probably closer to 1 percent of our defense costs in this country.

So one would have to conclude that their lack of participation in their common defense is to some degree borne by the American taxpayers in view of their very heavy agricultural subsidies that sap their ability to do other things.

Mr. Secretary, with those remarks we ask you to proceed and have your statement. You are certainly welcome to read it in its entirety. It will be included in the record in its entirety in the event you choose to summarize it.[1]

STATEMENT OF HON. ROBERT D. HORMATS, ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Secretary HORMATS. Thank you, Mr. Chairman, it is a pleasure to be here. I have just come from one of our major agricultural competitors, Canada, where this subject is also of major concern.

Senator BOSCHWITZ. If I may interrupt you, Mr. Secretary, let me thank you for rearranging your schedule starting off at Ottawa at 7 this morning in order to be here. We thank you for that.

Secretary HORMATS. Thank you.

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[1] See p. 109 for the prepared statement of Assistant Secretary Hormats.

I regard it as a particularly important subject, and I am delighted that you have decided to hold these hearings, because the subject is of major interest to the United States in general and the agricultural community in particular, and it is a subject which has been a very difficult one for us to make much progress on for the last several years. There has been a strong concern in the United States that the Community's agricultural policy, the common agricultural policy, or CAP, has really been moving in directions which pose major problems for our agricultural sector for two reasons: One, because of the impediments to access to the Community market, and, two, because of the increasing tendency of the Community to export items of which it was a major importer only a few years ago.

Some of the statistics that I have put in my testimony I think illustrate the point. The EC's self-sufficiency in 1978 and 1979 was 118 percent in soft wheat, 113 percent in barley, 124 percent in sugar, 119 percent in butter.

There are a number of items the Community has exported which it really didn't export several years ago. The Community 10 years ago was not a beef exporter; today it's a major beef exporter.

Senator BOSCHWITZ. The major beef exporter.

Secretary HORMATS. Yes, the major beef exporter.

Sugar—when you look at the logic of world agriculture, the Community would not seem to be the area you would anticipate would be a major sugar exporter, and, indeed, 10 years ago it wasn't. Today, it is.

Senator BOSCHWITZ. The major.

Secretary HORMATS. Collectively, the major exporter.

So, as a result of these policies you get major distortions—distortions in markets and distortions in prices, as your opening statement pointed out. In addition to that, the budgetary impact on the Community is, if I were a citizen of Europe, a major burden. The Europeans pay in terms of increased costs of food as consumers, and they pay an enormous amount in terms of the budget. The EC spends $18 billion—70 percent of the overall Community budget—to buy and store agricultural commodities and to subsidize agricultural exports. Then, when you add to that member state expenditures, the total is something in the order of $40 billion. At a time when the Western world should be using its resources more efficiently, the Community is using them increasingly less efficiently.

Now, obviously, we have to understand that there are major pressures on the Community. Clearly, the common agricultural policy is regarded as the Community calls it, the glue binding the 10 countries together. It also serves social objectives that are important to the Community. The Community wants to slow down the exodus of farmers off the farm. The real question is: Can the social, political and economic objectives served by the CAP be accomplished without causing major distortions in trade and without, in effect, shifting the burden from the Community to the more efficient agricultural producers such as the United States, Canada, Australia, and many developing countries.

This is really the issue at hand here. We have not been telling the Community to completely get rid of the common agricultural policy, which we realize is important to it, but to deal with its excesses and with the adverse effects on our interests.

We have had reasonably good discussions with members of the European Commission, but the discussions all add up to two things: One, there are strong domestic pressures on them not to make dramatic changes; and, two, they view trade policy on the use of export subsidies quite differently from the way we view it. Over the last several years we have been strongly opposed to promotion of exports through the use of agricultural export subsidies. The Community position is that the use of subsidies is acceptable, as long as the conditions of the subsidies code are observed. There is a different philosophical attitude here.

Now, we have to a degree tried to deal with this through a number of cases that we have brought to the GATT regarding these subsidies. None of them have had a final outcome yet, but we think that by testing these under the Subsidies Code there at least is a chance to get a better interpretation of that Code and to underline strongly the fact that we do not think that the Subsidies Code entitles countries to go in and build up a big share of the market, not based on the competitiveness of the product but based on the degree of the export subsidy. That, in our judgment, causes major distortions in international agricultural trade, and it hurts our farmers in many areas.

Now, the Community itself has been discussing the possibility of reform over the last several years. In May of 1980 the EC Council asked the Commission to come up with a number of ideas for reform of the CAP. And I have indicated in my testimony on page 6 what these are, so I won't read them. But, essentially, first, in themselves they are somewhat limited in terms of what they will do to correct the situation. The second is that there are strong member country pressures not to go along with these ideas, because even as modest as these are, there are some in the Community that think that they should not be moving toward greater use of the market and want to keep up the prospect of increased subsidies.

Senator BOSCHWITZ. Even as modest as the objections are?

Secretary HORMATS. As modest as these proposals are, there are some in the Community who think they go too far in the direction they don't want. In other words, there are members of the Community who really do like the notion of substantial agricultural subsidies. This is not to say that this view is shared by all members. There are divisions in the Community. There are some countries who have quite publicly and strongly argued for a more market-oriented system. There are some countries that have argued for greater discipline in production. There are some countries that have argued for moving the Community price closer to the world price; in other words, down to the world price. There are a whole lot of pressures in the Community from consumer groups, from countries that feel they pay a disproportionately large share of the Community budget. All these pressures are substantial, yet there are counter pressures. There are people who for social reasons want to keep up substantially higher prices. There are groups who want to be able to export under subsidy to gain or hold shares of the foreign market. So it is by no means clear how this debate is going to resolve itself within the context of the European Community.

We have made it very clear what we believe our interests are. We believe our interests are to get the Community to move toward a much more efficient and much more market-oriented system, a step in their own interest as well as ours. Now, obviously, we can't tell the Community what is in its interest; it is going to have to decide on its own. But we can certainly inform the Community that continuation of substantial export subsidies and, imposition of a tax on vegetable oils, which the Community has considered from time to time, would in our judgment violate our GATT bindings, this would cause a major problem with the United States, and we would take actions to defend our agricultural interests. This message was made very clearly by Secretary Haig, Secretary Block, and Ambassador Brock in the meetings on December 11th in Brussels.

I think the Community, by and large, understands this point. I think to a degree they are trapped by the weakness of some of the governments in the Community as a result of their agricultural problems, which results in a weakness in being able to deal with us.

Senator BOSCHWITZ. Political?

Secretary HORMATS. A political weakness.

A second fact is that they have really very strongly entrenched agricultural interests. And therefore, while some leaders, I think—as a matter of fact, I would say that many of the leaders in Europe—recognize that this is not the sort of policy of which they can be proud and it is utilizing precious resources very inefficiently. For political reasons, many of them cannot take the actions necessary to make the changes that I think they and certainly we believe are desirable.

So we have a problem, and I think we have to address the fact that this is a problem which is not going to go away in the very near future. But the key point is to get the Community to move in a different direction, to begin to move the system not overnight but over a steady period of time to a more efficient system, one which does not rely heavily on export subsidies, and one in which production is limited either by the market or by production controls of some sort so that the burden of adjustment is not placed on more efficient producers.

I was asked in my testimony to make one last point on the role of the State Department in agricultural trade, and then we can perhaps go to more details about the meeting we had with the Community.

Let me just say that, during the time I was at the Office of the U.S. Trade Representative and during the time at the State Department, I tried to keep up a very close relationship with the agricultural community in this country for a number of reasons. One, it is quite clear to me that agricultural exports are a central element in our overall export position, and if agricultural exports are weakened by export subsidies of other countries or import restrictions by other countries, it hurts the U.S farm community which depends very heavily on exports, it hurts our overall export performance, and it hurts a critical element of the American economy, the agricultural sector. So it is particularly important that the State Department work very closely with the Department of Agriculture and the U.S. Trade Representative in insuring that our rights are protected, defended, and in helping to encourage our embassies abroad to strengthen their support for agricultural exports.

Also, I think, as I believe has been indicated in Ambassador Brock's testimony, that a very good job has been done in keeping a strong degree of unity within the Federal Government on the response to Community agricultural trade practices. I think that degree of unity, the fact that others realize that all the agencies of Government are behind this approach, adds a certain measure of weight to the overall approach itself.

Beyond that, Secretary Haig very early on in the administration sent a personal cable to all the ambassadors arguing strongly the case for increased emphasis on agricultural exports. And certainly that has added an important factor.

Senator **Boschwitz**. Could you give me that cable?

Secretary **Hormats**. Sure. I would be delighted to.

[The following material was subsequently received by the committee:]

Subject: Promotion of U.S. Agricultural Exports.
For the Ambassador from the Secretary.

1. In the aftermath of the lifting of the grain embargo on the Soviet Union, I wish to emphasize in this cable the total agreement between Secretary Block and me on support for U.S. agricultural exports. We share the same strong commitment to boost sales of U.S. agricultural products. U.S. agricultural exports are one of the most dynamic elements of our trade. The U.S. has a large agricultural trade surplus (expected to reach $30 billion in fiscal year 1981) which is crucial to our balance of payments. Agricultural exports should bring in $47 billion 1981 accounting for about 20 percent of total U.S. export revenues. Our agricultural exports pay for roughly half of our oil imports.

2. Over the 1972–80 period, agricultural exports increased 35 percent in volume terms, to 160 million tons, annually. The production from one out of every three acres of harvested cropland is now available for export. Agricultural exports generate $95 billion of domestic economic activity and provide at least 1.2 million jobs. Each additional $1 billion in exports generates 35,000 additional jobs.

3. In fiscal year 1980, our agricultural exports to Western Europe, Japan and Canada were valued at $20.6 billion, 50 percent of total U.S. agricultural exports. Feedgrains and soybeans for the livestock sector are the largest components of these exports. The developed countries will undoubtedly remain important markets for U.S. agricultural products in the future, although growth in their imports may not be as rapid as in the past. We must maintain and improve our access to these markets and continue our efforts to promote sales of a wide variety of agricultural products.

4. The LDCs, particularly the middle-income countries, represent a growing market for U.S. agricultural exports. From fiscal year 1979 to fiscal year 1980, U.S. agricultural exports increased by 63 percent to Latin America and by 49 percent to Africa. A special case is China, where imports of U.S. agricultural products (particularly wheat and cotton) increased 113 percent. As the LDCs seek to improve the diets of their populations, we expect U.S. agricultural exports to these markets to continue to increase. Countries receiving substantial aid under Public Law 480 should offer particularly good targets for commercial sales of agricultural products.

5. This administration intends to maintain and strengthen the position of the U.S. as the world's leading agricultural exporter. The State and Agriculture Departments, together with the Office of the U.S. Trade Representative, will work together closely toward this end. The effort to promote agricultural exports is one of major importance for the United States. I consider it a major objective of our overseas missions. I know that I can count on you to take a strong personal interest in the achievement of this objective in your country. All elements of your mission should

be encouraged to give their full cooperation to USDA's representatives in their direct responsibility for promotion of agricultural exports.

HAIG.

Secretary HORMATS. Second, we are working very closely, in particular with the Farm Bureau, to encourage our embassies to pay particular attention to the efforts being made to increase the exports of high value-added products. You may be aware, I'm sure you are, of the effort being made between the agricultural community and the U.S. labor movement, the AFL–CIO and constituent unions, to increase the value-added component of our exports. That means more agricultural exports, and it means more jobs; and I think it is a very good combination. Bob Delano and I have met on this issue and we have prepared a cable to each of our ambassadors asking them to lend their weight and their support to this program, because I think it's a good one.

Well, this concludes my testimony, Mr. Chairman. If there are any questions, I would be delighted to answer them.

Senator BOSCHWITZ. Well, your testimony certainly is most helpful. Let me ask, if I may, a couple of questions. I would like to ask about the consumer resistance in Europe, if any, and why it doesn't develop. I would like to ask a question about embargoes which have been on people's minds a great deal, and perhaps we should start in that area.

There has been some talk about the possibility of yet another embargo in the event that there is a Russian invasion of Poland. Do you wish to comment on that?

Secretary HORMATS. Well, I would say that, obviously, we would all hope it's something that won't occur. If a determination in Poland should occur, we obviously have to take a look at all the options we have available. A general proposition, that is widely shared in the administration, is that an embargo should only be used in an extreme situation and that agriculture should not be singled out to bear the brunt of the embargo. If an embargo were to take place it should not hit one sector alone; it would be of a much more generalized nature. I know this is something that Congress feels very strongly about, and the President does as well. If an embargo is done it should be done in such a way that the burden is not borne disproportionately by one sector and be done in conjunction with our allies and other trading countries so that it has: One, more effect, and two, one country doesn't bear a major share of the burden for it.

Senator BOSCHWITZ. I agree with you very much. I direct your attention to the new farm bill that we have enacted and that will undoubtedly be signed into law, which has created a very large penalty in the event that there is a selective embargo, because we feel very strongly that that should not be the case and that has been very destructive. Everybody gives lip service to the fact that there shouldn't be an agricultural embargo, and each of the last three Presidents, not including this one, has imposed an embargo. This President is the first one to lift such an embargo. And the new farm bill will certainly make it quite an expensive project. And the idea of getting our so-called allies involved in jointly embargoing similar types of products, or across the board in that event, is most important, in my judgment.

Mr. Secretary, have the European nations looked at all on the idea of a deficiency payment type of a system for the purpose of recompensing their farmers and in that way keeping down the market prices and allowing a freer competition?

Secretary **Hormats**. They have. The Community agricultural system has been based primarily on holding up the price of the product rather than deficiency payments that subsidize incomes. There are pressures. As a matter of fact, there is some feeling in some parts of the Community that greater use of income subsidies could be an element of CAP reform. That has been proposed by the Commission. We had a discussion of this at the meeting in Brussels, and one point that I felt very strongly about is that we hear from the Community from time to time that, "Well, the U.S. Government spends a lot of money on agriculture, too." Clearly, we don't spend nearly as much as the Community; but, even where we spend it, it is not spent, except in a couple of areas, on subsidies holding up prices. It is spent much more on supplementing incomes and on subsidizing consumption of food.

Now, if the Community were to use its considerable amount of money for subsidies on income supplements, that would reduce to a significant degree the distortions imposed by their very high prices which distort production and distort markets. If they were to subsidize consumption in Europe, that would increase demand rather than production and it would increase demand for their products and ours. It would also move prices closer to market prices. And if they were to subsidize incomes rather than artificially support the price of the product, that would conceivably have a less disruptive effect. But those who advocate this in Europe, I think, are for the moment at least not in the visible majority.

Senator **Boschwitz**. How elastic is the European demand? In the event that you were to lower food prices, how much more consumption would there be, number one, and to what do you assign the lack of consumer resistance? A $40 billion underwriting of the agricultural community must, of course, come from the consuming community, and it just astounds me that there is no objection from the European consumer groups. We ought to send Ralph Nader over there for a couple of months to start something up. [Laughter.]

Secretary **Hormats**. Mr. Chairman, it is something that I have been amazed at when I go to Europe and to Japan. In both areas it is remarkable how docile, particularly in Japan, consumer groups are. And for the Japanese, when you look at the price they pay for oranges as opposed to the price we pay, and the price they pay for meat which is $70 for a little steak, it is extraordinary. Western Europe doesn't have quite that degree of price differential, but still a higher price is paid.

Once in a while, European consumers do protest. But the farm community is, to put it bluntly, much more organized in Europe than the consumer community. And the consumer community has simply not gotten their act together as it has in the United States. They do pay a higher price.

One of the very interesting things is that in Western Europe today one of the problems is that they are just not getting enough money into their newer high-technology industries. One reason is because a lot of it is trapped in these relatively inefficient sectors, one of which is agriculture. I think European progress in moving up the technology scale would be enhanced, in fact, were they to spend less on agriculture and more on some other things.

Senator **Boschwitz**. Yesterday Senator Andrews pointed out that during the selective embargo imposed by President Carter a couple of years ago, in January of 1980, action against unfair trade practices in the EEC was suspended in exchange for European cooperation. I am not quite sure if it was suspended formally, but perhaps informally. If, trade sanctions were extended once again, would the United States allow the EEC a free hand in subsidizing agricultural exports to other markets, Third World markets?

Secretary **Hormats**. In the event of——

Senator **Boschwitz**. In the event of an embargo. Last time around there was an unspoken agreement, apparently, that unfair trade practices by the EEC or objections to them would be suspended.

Secretary **Hormats**. What we detected during the period of the last embargo was that some products, particularly processed goods, were going out from the Community to the Soviet Union. We discussed this with the Community at some length. I don't recall the exact nature of the discussion, but my recollection is that they said that there were certain elements of this over which they had very little control. But, in my judgment, if there should be an embargo, then we ought to sit down with the Community and try to work it out so that this sort of diversion or distortion doesn't take place. No doubt about that.

Senator **Boschwitz**. I understand that wheat was milled and sent out as flour.

Secretary **Hormats**. That's right, about a million tons or so.

Senator **Boschwitz**. And also that apparently there was no objection to subsidization of shipments into other markets of the world. We will certainly hope that that doesn't occur again. We hope an embargo doesn't occur again. But if it does, if for some reason of the national interest it becomes a necessary thing, and I continue by saying that I don't believe it will because it hasn't worked in the past; nevertheless, in that event we hope that other markets that we now have won't be invaded by some of our trading competitors.

Secretary Hormats, one question that has been submitted to me is that you have been involved in the international trade arena for some time and no doubt have a good indication of the cost involved in supporting the common agricultural policy, about which we talked this morning. Can you tell me just how serious the budget problem is to the Community both now and in the longer term?

Secretary **Hormats**. It's very serious. This has been one of the major contentious issues within the Community: One, the cost is high and growing, and, two, if Spain and Portugal come in with an added amount of Mediterranean products which also will fall under the common agricultural policy, the costs will increase still further. And perhaps the single most contentious issue within the European Community today is the size of the budget and the allocation of contributions to that Community budget in the agricultural area.

One of the ironies is that the common agricultural policy has been seen by, and indeed been sold by, Europeans as the glue to enhance Community cohesion. As it turns out, it is perhaps one of the most divisive issues in the inner EC debate that we have today.

I see a lot of Europeans arguing that it should be reduced, that the system should be brought closer to market forces; but if I were a European I would be very concerned that the direction of political pressure is simply not moving that way, and I think that it is cause for alarm for European taxpayers and European consumers. And if you add more countries, it will be an even greater cause for alarm.

Senator BOSCHWITZ. Mr. Secretary, do you have any further statements or remarks that you wish to make?

Secretary HORMATS. I would conclude by thanking you for permitting me and inviting me to testify, and saying that this is an issue which we regard as of major importance to the United States.

We would like to be able to resolve this with the European Community in a constructive way. None of us, I think, has an interest in a major dispute with the European Community on this issue or any other issue, particularly at a time when the West should be unified in the face of the sort of pressures that we now see in Poland. It is uncomfortable, I think, for both sides to face such a divisive issue.

Yet I think that Europe has to recognize that, while we understand the importance of the common agricultural policy, and its social significance. We also really cannot sit back and have the adjustment burden for the European farmer being directly or indirectly assumed by the American farmer. The American farm community, I think, simply can't be asked politically or economically to sit by while its markets are threatened or displaced by less efficient producers.

What we are asking for, I think, is not for the European Community to get rid of this policy overnight. They can have a common agricultural policy which holds the Community together. The question is the excessive use of the policy and the distorting impact it has on our exports. And that's really what we are asking the Community to take another look at. In the context of the changes they are making in the common agricultural policy, the Community has to recognize the very major fact that politically, we cannot sit still while this happens, while our farmers lose markets to this, and while distortions take place in price, for instance.

We want to work with the Community. We want to work this out, but it is something that is too politically important, too economically important to a very important sector in the United States for us simply to allow the Community to move in this direction without challenging it.

Our hope is that the Community will, in its wisdom and in its own interest, move the common agricultural policy toward greater efficiency and toward less distorted, less excessive uses of the policies that they have employed in the past.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Well, thank you, Mr. Secretary. You are certainly singing our song here when you make those kinds of statements.

While I have stated it several times before during the course of these hearings, the gross figures of our exports are very impressive indeed. They total approximately $43 billion in the last fiscal year; our imports are in the $17 to $18 billion range, so that we have a trade surplus of $25 to $26 billion, which is a steadily growing trade surplus that takes care of somewhat over half of the oil bill that we have in this country, even as it has been recently increased somewhat due to the filling of the strategic oil reserve.

I can't stress how strongly we feel here in the Senate, particularly of course on the Agriculture Committee, as to the importance of the continued growth of our agricultural exports without having these artificial barriers erected in our way.

We will be holding hearings early next year with respect to the scores, even hundreds, of barriers that are imposed upon us by Japan, which singly, despite those barriers, imports almost as much as the European Community does as a group from this country in agricultural products.

We thank you for coming today. We will probably call you back for that hearing. And we again thank you for returning so conveniently from your meetings up in Canada.

Secretary HORMATS. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Our final witness this morning will be the Honorable Lionel Olmer, Under Secretary for International Trade in the Department of Commerce.

Lionel, how are you?

As we have noted earlier on, unfortunately, due to weather difficulties the Department of Commerce was not represented at the meetings with the European Community on its agricultural policy, but we understand that the Secretary intended to be there, and indeed it was just by a circumstance beyond his control that he was unable to be there. That again is the case this morning, that he was unable to be here for an instance beyond his control, so we are very pleased that you as the head of the foreign trade aspects of the Department of Commerce were able to make it, and we welcome your testimony at this time.

STATEMENT OF HON. LIONEL OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE

Secretary OLMER. Thank you, Mr. Chairman. I appreciate the opportunity to testify before you. I might add, parenthetically, that while Secretary Baldrige was not able to get to Brussels he did manage to get as far as London and, conveniently or otherwise, he was snowbound in the airport with Vice President Davignon of the European Commission. So he was able to do his good work in the airport lounge over the space of some 90 minutes, and there was adequate opportunity to convey the message which I think you and your colleagues in the Senate and on this committee in particular would have wanted conveyed.

I would like to talk with you this morning not only about United States-European Community agricultural relations but specifically with respect to our responsibilities in the Commerce Department in that area.

As has been said many times during the course of your hearings, the United States and the European Community share the major responsibility for stability and development of international trade in agriculture. Not only are the United States and the European Community each other's major agricultural export market but we also compete vigorously with each other in third country markets.

The Reagan administration is proud that our farm policy has been designed to interfere minimally in agricultural markets, particularly overseas. We are opposed to the use of export subsidies to promote agricultural exports, and we are working very hard to have that principle adopted by other agriculture-producing countries.

Although we recognize that European Community farm programs are based upon economic philosophies and interests different from our own, we must point out that certain common agricultural policy proposals and recent policy trends threaten to increase instability in world markets and to inject serious friction in our bilateral relations.

One of the major effects of these policies will be to encourage the production of surpluses in various agricultural commodities. Production surpluses arising primarily from EC subsidy payments are eroding our share of the agricultural market in the European Community and presently threaten to undermine U.S. farm exports in third country markets.

Unless EC policymakers institute meaningful agricultural reforms, strains in our trade relations which extend far beyond agriculture will be exacerbated. The Department of Commerce strongly supports the efforts of U.S. agriculture to increase exports of our farm products. The International Trade Administration, which I head, carries out a number of programs to facilitate agricultural trade. We have many country marketing experts who provide information to U.S. exporters on international marketing conditions, on tariffs, and on trade regulations, and many other factors relative to facilitating exports including agricultural products. Our Foreign Commercial Service officers overseas, in 67 countries, work closely with the agricultural attachés of the Department of Agriculture's Foreign Agricultural Service, and jointly promote the overseas sale of agricultural products.

We will continue to press for the reduction and elimination of foreign trade barriers to U.S. farm exports.

We support the use of available trade law remedies and dispute settlement procedures to protect our access to foreign markets. We will continue to reiterate U.S. concerns to the EC about their common agricultural policy. We have agreed on the need to continue to consult closely on these issues, and we will use every opportunity to resolve these differences.

I might say in closing, Mr. Chairman, that in addition to the promotion of exports, one of my other responsibilities is the administration of the Export Administration Act, which includes the countervailing duty and antidumping laws. We presently have one pending antidumping case with the Government of France, and six additional cases in which we are applying countervailing duties against a variety of European products. So, in addition to promoting exports to improve our trade balance we attempt to monitor trade coming into this country so that our own markets are not taken advantage of unfairly.

With that, Mr. Chairman, I would like to make myself available to any questions you might have.

Senator BOSCHWITZ. I am just looking at some of the questions that have been submitted.

Mr. Secretary, I was recently invited to go to London where all the agricultural attachés from Europe are going to gather in mid-February. I don't think I am going to be able to make it because I have other plans back in my State, but I wonder how you would characterize the program.

Assistant Secretary Hormats spoke about the agricultural attachés and their efforts to self-promote agricultural goods as well as commodities. There has been some feeling that indeed they haven't worked particularly well. I wonder if you would characterize what progress we are making with the agricultural attachés and also the various commodity groups and participatory programs that we have going?

Secretary OLMER. I have met with some industry representatives in the processed foods sector, and I have found them to be concerned about the lack of, in their minds, sufficient attention to their particular needs, because they believe they are more than competitive and that there are enormous opportunities. I share their evaluation that the opportunities are indeed great.

I don't have responsibility for the administration of the Foreign Agricultural Service, but in the many trips that I have taken to different countries in which we have a Foreign Commercial Service in the nonagricultural area, I have tried to encourage them to extend their services to the processed foods area. I have made a commitment to that industry sector to work more closely with them to develop a specific program for targeting, I think particularly, Third World country marketplaces where the opportunities are just enormous and have yet to be tapped.

Senator BOSCHWITZ. They are indeed enormous, and I note that this year the imports to Third World countries, I believe for the first time, exceed the exports to the European Community.

We have had a number of witnesses during the course of these hearings, Mr. Secretary, and you are our final witness. Indeed, I think we have made some progress. We have seen a good deal of unity between the various Departments of Government that, from my understanding, has not existed before; that the European Community has become somewhat aggregative in their subsidy programs and in the high prices that they grant their farmers, and in the trade barriers that they have established against the world's agricultural goods.

It would be my hope, and in the process of questioning the witnesses, to find that there is an effort being made to draw some of our other trading partners into a common front, so to speak, with ourselves in this effort to prevent the imposition of these trade barriers.

I think that these hearings have been useful in illustrating the duality of purpose of various agencies of Government, supported certainly by the U.S. Senate. We look forward to having further hearings with respect to agricultural policies of other areas of the world in an effort to remove the barriers to agricultural trade, because indeed this country is blessed with great agricultural potential that has not been fully tapped, even at this time, and that will do a great deal toward restoring our economic well-being, our balance of trade, and the rural communities of this country.

Mr. Secretary, we appreciate your coming and being here, and we look forward to having you at further hearings for the purpose of increasing our agricultural trade.

Secretary **Olmer**. Thank you.[1]

Senator **Boschwitz**. Thank you.

[Whereupon, at 11:39 a.m., the subcommittee adjourned, subject to call of the Chair.]

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[1] See p. 114 for a letter from Secretary Olmer to Senator Helms with answers to questions from Senator Hawkins.

APPENDIX

STATEMENT OF DONALD DEKIEFFER, GENERAL COUNSEL, OFFICE OF U.S. TRADE REPRESENTATIVE

Mr. Chairman, I am pleased to be here today to discuss our agricultural trade relations with the European Community. The European Community is our largest export market for agricultural products, taking 20 percent of the value of our exports in 1980. The nearest competition is Japan with roughly 5 percent of U.S. exports going to that market.

There is an adage that says you should always take care of your best customer. I believe this but I do not believe it means one cannot provide constructive criticism of another. Frankly, the agricultural trade policies of the Community are causing us concern. Perhaps the emphasis on trade is heavier this year than in the past because of our own lowering of the safety net for our agricultural producers in this time of economic austerity. Exports today provide 25 percent of farmers' cash receipts and the government provides 5 percent. That's almost a direct reversal in the roles of government and exports 20 years ago. Do you realize that while we are debating a farm bill with a cost of $10.6 to $11.3 billion over the next 4 years, the Community spends $14 billion annually to support their agricultural producers.

It is not our desire to quarrel with how the EC chooses to structure their domestic agricultural policies. We are, however, concerned about the impact of certain of their support mechanisms on our agricultural trade. And this is our focus today.

The centerpiece of EC agricultural programs is the Common Agricultural Policy (CAP). Based on the premise that EC agricultural producers are small and less efficient than their counterparts in other major exporting countries, the EC guarantees producer prices for most agricultural products which are above world price levels. The Community levies charges, called variable levies, on more price competitive products from third countries to bring these products up to Community price levels. Because EC prices are higher than world levels, subsidies are granted to exporters. The CAP covers all major agricultural products produced within the EC including grains, beef, pork, poultry, sugar, dairy, and fruits and vegetables * * *.

There are several important exceptions to the generally high level of protection imposed by the EC on agricultural imports. In the Dillon Round of Trade Negotiations the EC agreed to a zero tariff binding on soybean imports. Since then, U.S. exports to the EC have grown from $75 million in 1958 to $4 billion in 1980. The EC has threatened a number of times to impose duties on soybean imports in order to reduce their dairy surpluses. They rationalize that making soybean imports more expensive will cut down on the use of protein in dairy rations, reduce milk yields and curb output. Last year, a new reason for restricting soybean imports was found.

With Spanish Accession into the EC expected in 1984, the Community expects to have a 200,000-ton surplus in olive oil. Some in the Community figure that by restricting soybean imports they can temper olive oil surpluses. This thrust has brought forth new proposals to limit soybean imports, including a tax on vegetable oils which would also be applied to the oil content of soybeans. We have been successful in the past in fighting off attempts by the EC to restrict soybean imports and, once again, the EC has deferred consideration of the oilseed tax. A number of developing countries, such as Brazil, also weighed in on this issue. So far we have been successful, but it is very possible that new battles are to come.

Another affront to the CAP has been EC imports of non-grain feed ingredients. These include manioc, corn gluten feed, citrus pulp and others. Corn gluten feed is the most important U.S. export. It is a by-product of the milling of corn for the production of gasohol and high fructose sugar. Because EC prices for this by-product are more attractive than U.S. prices, nearly two-thirds of the tonnage produced in the United States is exported—mainly to Europe. In 1980, exports of corn gluten feed to the EC were nearly $700 million. Like soybeans, the duties for most of the non-grain feed ingredients are bound at zero in the EC. The French appear to be the major force behind possible EC action to negate bindings on these items. French officials think that increased imports of corn gluten feed will assist Dutch and Belgian livestock producers in further penetrating French livestock markets, expecially for pork, in the French industrial areas in the North and in Paris.

Market access, which soybeans and corn gluten feed illustrate, is only part of our concern with EC agricultural programs. The other part is subsidized exports. U.S. export industries have complained about EC subsidy practices in third country markets for years. Under the GATT Subsidies Code which entered into force on January 1, 1980, it is a violation of the code if a subsidizing country displaces exports of another country or materially undercuts the prices of other exporting countries. We have at the moment accepted four cases under Section 301 of the 1974 Trade Act alleging violations of the GATT Subsidies Code by the EC. The cases are: wheat flour, sugar, poultry, and pasta. We held consultations with the EC on their subsidy practices on wheat flour in November. That case is now in the conciliation stage of the Code requirements. On sugar, poultry, and pasta we have requested consultations with the Community but none have yet been held.

Last month the EC Commissioner of Agriculture Dalsager was in the United States meeting with various Administration officials. One purpose of his visit was to explain to us the initiatives the Commission was proposing to reform the CAP. The Commission has proposed to the EC Council of Ministers that producer co-responsibility be introduced or strengthened for the most important agricultural products. Production targets would be set and, when these are exceeded, the level of support will begin to diminish. The Commission has proposed that the gap between EC and U.S. grain support prices be progressively reduced by 1988. EC production targets are to take into consideration export objectives, which have not been precisely defined, but basically amount to a commitment to maintain the EC share of world markets reached in recent years. The Commission has also proposed a "Common Export Policy" which would utilize "a wider range of mechanism" in the export field (e.g., long-term agreements, export credits, etc.).

While we believe the Commission's idea of moving EC support prices toward U.S. levels could be an important step in the right direction, other elements of the proposals appear to cast doubt on the likelihood of achieving this objective. To date, EC member countries have reached no agreement on these proposals and their future is quite uncertain.

I would be happy to answer questions that you may have about what I've presented or other aspects of our agricultural trade policy with respect to the European Community. When Secretary Block and Ambassador Brock return from Europe, I am sure they will be able to give you the latest updates on this subject.

STATEMENT OF MARTIN E. ABEL, VICE PRESIDENT, SCHNITTKER ASSOCIATES

U.S.-EC AGRICULTURAL TRADE RELATIONS

My name is Martin E. Abel. I am Senior Vice President of Schnittker Associates, a research and consulting firm located in Washington, D.C.

The United States and the European Community (EC) have had agricultural trade problems since the beginning of the EC's Common Agricultural Policy (CAP). The nature and extent of these problems has changed over time, being more serious during some periods than others.

Most of the trade problems that the U.S. has had with the EC are rooted in the high levels of price support relative to world market prices provided EC producers under the CAP. The pattern of protecting farm income through high price supports has resulted in increased EC production relative to domestic needs (increased self-sufficiency), surpluses of some commodities, and increasing use of export subsidies to dispose of excess supplies in world markets. As the EC expanded from its original six members to nine—then to ten with the addition of Greece, and possibly to twelve with the addition of Spain and Portugal—both the volume of agricultural production insulated from world markets and of potential subsidized exports have increased. The U.S. and other agricultural exporters have been faced with a smaller market for many major agricultural products in Western Europe in relation to what it would otherwise have been and with growing competition in the rest of the world from EC exports.

In attempting to provide income support to its producers, the EC has had to evolve a system that could be applied in a reasonable uniform manner to several countries, and in a situation where the average farm size is relatively small—now about 45 acres, although a lot of production is now on large farms. Providing such support through a system of guaranteed prices appeared to be the most feasible approach both politically and administratively.

Agricultural producers in the EC have managed to have their support levels increased fairly steadily over the past 10–15 years. During the 1970's these price increases more than kept pace with inflation. At the same time, farms have tended to become larger and more efficient. Favorable prices and greater production efficiency have increased production and the EC's degree of self-sufficiency in most major agricultural products.

In this situation, the U.S. has been faced with some or all of the following trade issues: A shrinking EC market for many U.S. products; heavily subsidized EC exports; and a threat of further restriction on imports by the EC.

The EC, on the other hand, has been faced with the mounting costs of its agricultural price support programs. The variable levy system has been the major source of revenue to finance price support operations, structural reform and social programs for the farm sector, and export subsidies. As imports declined and exports rose, these revenues became inadequate; and more and more financing has had to be done from national treasuries.

The EC, mindful of the growing cost of its agricultural programs, has wrestled with ways to reform the CAP. Several proposed changes are especially important to the U.S.

1. The EC has attempted to moderate price increases for agricultural products through:

Trying to hold down the rate of increase in price support levels; and

Requiring producers to share part of the cost of price support operations by taxing them (co-responsibility scheme) when domestic production exceeds certain levels of self-sufficiency (e.g. milk).

Both mechanisms have been tried, but with little success so far. It is in the interest of U.S. agriculture to have the EC move further in this direction and to eventually narrow the gap between EC and world prices.

2. Another policy change being pushed by the EC is to close a major gap in the CAP dealing with grain substitute products. While EC grain prices are high, supported by the variable levy system, there are a number of products that substitute for grain as animal feed that can enter the EC without variable levies or with very low duties. These products include cassava (manioc), citrus pulp, wheat by-products, corn gluten feed and meal, and soybeans and soybean meal. Because many of these products are generally cheap relative to domestic grain prices in the EC, their imports have been rising rapidly and displacing EC grain in feed rations. The EC has already taken steps (e.g., manioc) or is considering action to limit imports of grain substitute feeds. This approach represents a real threat to U.S. exports of products like corn gluten feed and meal, wheat by-products, and possibly soybeans and soybean meal.

Tensions between the U.S. and EC over agricultural trade issues are unusually high at the present time. It is extremely important that the U.S. and the EC work together to find mutually satisfactory long-term solutions to issues. At the same time, both sides should avoid actions that would precipitate decisions that could lend to further deterioration in trade relations.

The EC is facing a difficult time reordering its agricultural policies. Part of that difficulty stems from divergent views among member countries as to which direction to take, given the differences in the balance between consumer and producer interests and the share of CAP costs among members. This problem would become even worse with the further expansion of the EC. Another problem is how to reform the CAP and still have it resemble a common policy approach; i.e., to prevent national actions from departing significantly from a common policy.

Within this setting, it is important for the U.S. to at least prevent further deterioration in its terms of trade with the EC and to put its trade relations on a more constructive footing. It will require continued firmness in the U.S. position not to permit the CAP to become more trade restrictive. We should use existing laws and international agreements to actively oppose trade restrictive actions. At the same time, the U.S. should seek a continuous dialogue at both official and private levels on ways to alleviate the longer-term trade problems. This will require more deliberations in agricultural trade matters than we have had in the past. Reacting to crises when they occur or are preceived to exist may not be good enough, and could actually be dangerous in the sense that issues could get emotionally out of hand.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

I appreciate the opportunity to report to the Subcommittee on the meeting December 11 with President Thorn, Agriculture Commissioner Dalsager, and other members of the European Community Commission.

I understand that you will hear tomorrow from the other U.S. Executive departments participating in the meeting—State and the Office of the U.S. Trade Representative—so I will focus on agriculture.

In my view, the meeting achieved its purpose, which was to air U.S.-EC trade and economic problems and lay the groundwork for dealing with issues that contain the potential for serious conflicts.

I think there emerged a common commitment to a continuing close U.S.-Community relationship and a determination to manage the problems that confront us through closer communication and consultation.

Significantly, there was a general recognition that agricultural issues offer the greatest challenge and will require the most intensive efforts to arrive at satisfactory solutions.

Before turning to some of the specifics, I would like to say that the Brussels meeting, with the participation of the other U.S. Cabinet officers, clearly signaled the end of the piecemeal approach that has been followed by the United States in the past in dealing with the adverse effects of EC policies on U.S. agricultural trade.

U.S. agriculture has the full support of this Administration in a unified effort against the EC practices that we believe are unfairly detrimental to U.S. agriculture. This was amply demonstrated by Secretary Haig and U.S. Trade Representative Brock at the meeting in Brussels.

As you know, the meeting was for me something of follow-up to meetings I had with EC officials last spring. It gave me a chance to discuss with them my views of what has been done toward resolving the issues that I raised on my earlier visit.

Unfortunately, I told them, almost nothing had been done; there has been no progress. To the contrary, the situation has deteriorated, and agricultural relations between the Community and United States have become increasingly strained.

I warned that opinion in the United States—in the Government and in the farming Community—is increasingly focused on what we consider to be threats to legitimate U.S. agricultural trade interests by EC activities.

We are, of course, pleased that the community is no longer actively considering the imposition of a tax on vegetable fats and oils, and I told them so. However, with this threat to our soybean trade laid aside, at least temporarily, pressure continues from some EC sources to limit non-grain feed access, and there has been no sign of any change in the increasingly aggressive export subsidy policies.

I pointed out that the rash of petitions being filed under Section 301 of the Trade Act of 1974 against EC subsidy practices reflects genuine concern on the part of U.S. producers, and that these are valid concerns.

As one example, subsidies have helped push EC wheat exports to 14 million tons, double their wheat exports three years ago, with a depressing effect on world prices. This has cost U.S. producers 50 cents a bushel on their wheat sales this year, and it will add about $400 million to the cost of the U.S. Government's domestic wheat program next year.

I pointed out that U.S. farm producers are willing and able to compete with other producers in any market, but they are not willing and not able to compete with foreign treasuries, nor should they be asked to do so. I urged on the EC officials that the Community must come to grips with the fundamental problem, which is surplus production encouraged by high levels of protection and disposed of by export subsidies.

I made it clear, as Secretary Haig had before me, that we are not attacking the Common Agricultural Policy, but the effects of the methods used to implement the policy.

In this regard, Commissioner Dalsager noted that the Commission had proposed new guidelines for the CAP in October. He said these would set some limits on EC production by withdrawing price protection when production targets are met and move EC cereals prices closer to world prices.

I told him we applaud this change in direction, but remain skeptical in view of the continuing trend to overproduction on sugar, wheat and dairy products and a projected 4 to 7 percent increase in EC prices while world prices are declining.

In summarizing the Community's views, Commissioner Dalsager affirmed the commitment to the CAP. He noted that 8 percent of the Community work force is engaged in agriculture and that farm incomes have declined for the last three years.

He said the Community subsidies policies are not intended to disrupt the world market. He said the Community will abide by its subsidies obligations under the GATT. The GATT permits subsidies of primary agricultural products, but not when they are unfairly detrimental to the exports of other countries. He noted the complaints may be dealt with through the GATT framework.

The Commissioner said the two major EC concerns with U.S. agriculture are the growing size of the U.S. dairy surplus, which led to the butter sale to New Zealand, and the increase in EC imports of corn gluten feed.

I pointed out that the Reagan Administration had fought for a zero increase in dairy price supports, and that we ultimately accepted an increase of only one percent in order to control production and equalize supply with demand.

As for corn gluten issue, I noted that the zero duty binding—and the binding for soybeans—had been negotiated in the GATT and paid for, and that since both the EC and the United States accepted their GATT obligations, these duties should not be called into question.

I reaffirmed what I had said last spring: that we will make every effort to resolve our difficulties without confrontation, but that we will defend our legitimate trade interests, and we will not accept impairment of our access, or displacement of our trade in third countries as a result of heavily subsidized EC exports.

This was a worthwhile meeting. I think those who participated left with a greater appreciation of the interests that bind the Community and the United States as well as a better understanding of our differences. I was pleased at the recognition by all participants of the difficulty of the agricultural issues between us, and the determination to intensify efforts to work for solutions.

The dialogue will continue, and we in the United States intend to do our part to see that there is movement, and movement soon, toward those solutions. That concludes my statement Mr. Chairman. I will try to answer any questions.

STATEMENT OF HON. CHARLES H. PERCY, A U.S. SENATOR FROM ILLINOIS

It is a great pleasure to appear today before your Subcommittee on Foreign Agricultural Policy to discuss with you the European Economic Community's Common Agricultural Policy. I want to commend you, Mr. Chairman, for calling these hearings before Congress adjourns. This year has been an important one for our agricultural export markets overseas and 1982 may prove to be a year of challenge to some of our markets in Europe. In short, we may very well stand on the verge of a new era in our trade relationships with Europe. It is not too soon to take a look at some of the possibilities that lie ahead of us so that we will be ready to act to keep agricultural export markets open.

Mr. Chairman, I would like to share with this subcommittee the findings of a field hearing I held in Illinois this fall. Before I go into the details of that hearing, however, I want to reiterate the importance of agricultural exports to our balance of payments picture. During the 1970s, farm exports expanded at a much faster pace than did agricultural imports. During the last decade, our farm sales abroad totaled $162 billion, whereas farm imports amounted to only $85 billion. That made a $77 billion difference in our balance sheets, making up for much of the deficit in manufactured goods.

Fortunately these trends are continuing into this decade. Last year we sold $23 billion more in farm products abroad than we brought in; USDA predicts we will have an agricultural trade surplus of $26 billion this year and $28 billion next year. Without these surpluses, our trade deficit would double to over $50 billion. These surpluses are good news for the farmer and are also good news for the economy. It has been estimated that every dollar earned from farm exports creates an additional $1.05 in economic activity in other areas—transportation, warehousing, finance and equipment. That means when farm exports jumped by $9 billion in 1980, $9.5 billion in additional income was generated for the rest of the economy. Moreover, a strong export sector reduces the Federal payments for agricultural assistance programs and creates efficiencies in farming that reduce the overall cost of food to the consumer. In short Mr. Chairman, the agricultural export sector is an essential—and growing—part of our international economic strength: it helps us pay for expensive petroleum imports, strengthens the dollar in world markets and contributes to the growth of income in our own domestic economy.

Within this overall picture of our agricultural trade markets, we do not want to lose sight of the fact that Europe has traditionally been our best market. For example, in 1980, the European Community alone took 22 percent of all U.S. farm exports, the largest single market for U.S. farm products in the world.

The two largest agricultural products we sell to the European Community are corn and soybeans. In fact, the sales of these two items tower over all our other farm exports to the E.C. Last year, for example, we sold $4 billion worth of soybeans and soybean products and $1.2 billion worth of corn to the E.C. Taken together, corn and soybean exports account for well over half of the $8.9 billion in agricultural exports we shipped to the E.C. last year. This is therefore an important market for this country and one we do not want to see slip away through an increase in tariff restrictions or a more competitive European sector.

As this Subcommittee undoubtedly knows, there is good reason why corn and soybeans loom over our other agricultural products in terms of trade with the E.C. These two products have wide appeal in Europe because they are the only principal U.S. farm products that have relatively unfettered access to the Common Market. Other farm products are subject to various restrictions like variable levies that have the effect of making our products too expensive for the Europeans to buy. But through past negotiations, we secured relatively free entry for our soybeans and corn products. So these products can compete with their European-origin counterparts in the type of open trade that this country has long advocated.

It was with great concern that I learned earlier this year about possible moves in Europe that could pull the rug out from under our best agricultural export market in the world. As you may know, Illinois is ranked number one in the U.S. in agricultural exports. Our top position in trade is based on the export of soybeans and corn. In fact, Illinois produces nearly 20 percent of the U.S. soybean and corn crops.

Just like their counterparts in Minnesota, Illinois farmers are critically dependent on exports for maintenance of their income. From 1971 to the present, the value of Illinois agricultural exports has quadrupled from $670 million to $3.6 billion—or 9 percent of all U.S. agricultural exports. Today, 120,000 farm jobs in my state depend on exports, compared with only 39,000 a decade ago. That amounts to one of every two agricultural jobs in my state hinging on exports. That is a sizeable constituency for growing trade and it is one I am pleased to represent here today.

Mr. Chairman, the continued viability of these export markets is critical to the Illinois and U.S. economy. These markets take on an even more important role this year, with a record harvest, with commodity prices fluctuating downward and farmers confronted with extremely high interest costs. All of us at this table know the problem, because we hear it every day from our constituents.

This summer I heard from constituents about possible agricultural protectionism in Europe. Two of the most visible targets of these efforts were our exports of soybeans and corn gluten feed.

The most urgent threat was to our $4 billion a year trade with Europe in soybeans. The issue that caused concern was before the General Agreement on Tariffs and Trade—referred to as the GATT—in Geneva, Switzerland. A panel of the GATT had voted to uphold the right of the Spanish government to impose internal consumption quotas on soybean oil, crushed from imported soybeans—mostly from the United States.

Had this panel report been adopted by the GATT Council, it would have established a precedent in international trade that would have allowed countries to import lumber but discriminate against boards cut from that lumber or would have allowed countries to import fruit but discriminate against juice pressed from that fruit.

The principle is the same in each of these instances, namely that raw material imports could be discriminated against indirectly through a limit on the consumption of their natural derivatives.

This was one of the concerns among Illinois farmers. Another concern relates to the subsidy that the Spanish, Italians and Greeks provide for their domestic olive oil producers. Spain's admittance to the European Economic Community could result in a glut of olive oil in the European market. Italy and Greece already produce nearly all that the Community needs. The cheaper Spanish oil would certainly undercut the Italian and Greek oil unless the Community were to raise the price of Spanish oil so that it sold at the same price as Italian and Greek oils. That would satisfy the other olive oil producing countries, but it would create a huge surplus of olive oil in the E.C. Professor Stephen Schmidt of the University of Illinois has estimated that Spain's membership in the E.C. could result in an annual 200,000 ton olive oil surplus. A Chicago Tribune reporter, R.C. Longworth, recently described this as an "olive oil lake" that would cost the E.C. as much as $800 million a year to buy and store.

Mr. Chairman, I believe your subcommittee would be interested in this analysis by Mr. Longworth and I ask that it be included at the end of my statement.

The problem for U.S. producers stemming from this possiblity is imposition of a tax to pay for the huge olive oil price supports. That tax would be applied to our soybean imports and would, in effect, have a serious, adverse impact on U.S. exports.

The other major concern of Illinois farmers pertains to corn—particularly corn gluten feed exports to Europe. Corn gluten feed is a byproduct of the corn wet milling industry. It results from the production of gasohol. The Europeans have taken more and more of our corn gluten feed exports as it provides a high protein feed for their livestock and is considerably less expensive—even with transportation costs—than the European livestock feedgrains.

The Europeans have seen the campaign for increased gasohol production gather steam in this country and concluded that massive gasohol production could only result in sizeable amounts of corn gluten feed, mostly destined for Europe. At one time, the EEC proposed applying a variable levy to our corn gluten feed exports, in effect eliminating the competitive edge they now have over European feedgrains. This would be in contravention of the zero duty we negotiated many years ago and would have surely curtailed our markets. To get the full dimensions of these specific trade matters, I scheduled a hearing in the heartland of Illinois agriculture: Urbana, home of the University of Illinois and its fine College of Agriculture.

Despite the fact that the hearing was called at harvest time—October 16—some 200 constituents came from all over the state to demonstrate their concern. We had witnesses from major Illinois farm organizations. Tom Hammer from USDA and Don Nelson from the Office of the U.S. Trade Representative also appeared.

I came away from the hearing with a greater appreciation of the knowledge and expertise of the Illinois farmer and processor on export issues. Two excellent statements were presented at the hearing and I would like to ask that they be made a part of this hearing record. You and your staff will find them invaluable.

One statement, by Sheldon Hauck, President of the National Soybean Processors Association, fully describes the European challenge to our soybean markets. The statement of Dr. Vernon McMinimy of the A.E. Staley Manufacturing Company made an important contribution to the understanding of gasohol production plans in the U.S. and the relationship of corn gluten feed to this process.

The hearings provided an excellent forum for airing of these views and served to let Europeans know that the concern over soybeans and corn is not limited solely to Washington, D.C. It is a grassroots concern.

I believe this message has been picked up in Europe. I know, for example, that Dr. McMinimy's statement had been received and read by European government officials within two weeks of our hearing. Secretary Block's many trips to Brussels have underscored this concern and I am pleased he was able to come before you yesterday to outline his most recent talks.

Mr. Chairman, the GATT Council met in Geneva just two weeks after our hearing to take up the panel report I described earlier. The panel had voted unanimously against the U.S. position and for the trade limiting regulation of Spain. There was strong concern that the GATT would actually endorse the Spanish consumption limit and set the type of precedent I described before. Immediately after the hearing I wrote letters to the ambassador of 40 nations represented in the GATT asking them not to support the panel's recommendations. Ambassador Brock also threw his efforts into turning back this decision. The result was that 26 countries—including the U.S.—spoke out against the panel report and only two other countries joined Spain in endorsing the panel. Since the GATT Council operates on a consensus basis, the panel report was merely "noted" in the GATT. This is an unusual procedure and has been used only four other times in GATT history. It was the best we could do in this case: the panel report will not stand as a precedent for international trade practices.

The European Community has withdrawn for now its ill-conceived proposal to establish a consumer tax on vegetable oils and fats. Although it has been laid to rest in part because of vehement U.S. government protests, it could resurface in the future, especially as Spain's admittance to the EEC grows nearer.

Regarding corn gluten feed, I have learned that the EEC is not now seriously considering a variable levy. Rather, the Community is tinkering with a restructuring of their support price system that would reduce the advantage U.S. corn gluten feed has over European grains. Although this could reduce our competitive edge, we should endorse any European moves that inject more competitive principles into the Common Agricultural Policy. The protectionist threats from the EEC are spin-offs from the CAP and, in the case of corn gluten feed, this move away from higher supports is much preferrable to levies. At least we still have a chance to compete in that situation.

Let me wrap up my remarks, Mr. Chairman, with these observations. First, agricultural export markets are absolutely key to our own domestic economic health. Europe, as the primary market for our agricultural products, must be convinced that this is a key market and that threats to curtail that market will be met with strong disapproval and possibly retalitation in Congress. Retaliation is a strong word to use here and as a long-standing advocate of expanding trade, I do not use it lightly. Yet we cannot let these hard-won and important markets slip away. Farm exports are a top priority for this country. We need to drive that message through to our allies in Europe.

Second, we can increase our commitment to agricultural trade by more prominently arguing our cases at the GATT. Although we were able to turn back the disasterous panel report, we might have been able to overturn the Spanish limitations. Our trade negotiators feel that the Spanish consumption restriction violates the GATT. I suggest that a fruitful area for your subcommittee's investigation in this instance. It is not inappropriate to inquire how we can better prepare ourselves for confrontations of this nature. We know we will have cases in the future and now is the time to prepare ourselves for them.

Third, we should raise to a higher level the promotion of our value-added products, as they provide additional processing jobs here at home. I applaud the recent action of the State Department to instruct our attachés to stress the sale of processed food in our Embassies. There may be other avenues this subcommittee could explore to advance our processed food exports.

Last, but not least, I feel strongly that we should emphasize that it is our inclination to continue to discuss our trade problems through negotiations. Confrontation does not further world trade and well-being at all. The delegation of four U.S. Cabinet-level officials who went to Brussels a week ago was ample evidence that the United States wants to discuss our mutual problems and emphasize our bedrock interests like corn and soybean exports. We have achieved much in past trade talks. We should encourage our top trade officials to continue them.

[The following material was submitted by Senator Percy:]

[Reprint from Chicago Tribune, Friday, Nov. 6, 1981]

OLIVE OIL WAR THREATENS U.S. SOYBEAN TRADE

(By R. C. Longworth, Chicago Tribune Press Service)

BRUSSELS.—There have been brandy wars, cheese wars, chicken wars, and even the awful offal war. Now comes the olive oil war—the latest outbreak of trans-Atlantic hostilities between the United States and the European Common Market.

Disputes between the two trading giants—even serious and expensive disputes—have a way of sounding like a joke. The current dustup involves a so-called "fat tax," which could create an "olive oil lake" of some 2,000,000 tons, enough to soak all the salads between Chicago and Athens.

Common Market officials insist the dispute is a nonevent. But the U.S. government says it could threaten American soybean exports to Europe. Since these exports amount to $4 billion a year and are America's biggest export to the Common Market countries, the stakes are high.

Like most U.S.-European disputes, this one is rooted in the Common Market's farm system, called the Common Agricultural Policy (CAP).

CAP was set up at French insistence, when the Common Market was formed in 1957, to subsidize and protect small French farmers. Basically, food prices are set artificially high in the Common Market nations. A high tariff wall prevents competition from cheap foreign imports. The high prices encourage overproduction, so the Common Market is pledged to buy up any surplus. This creates huge stockpiles of butter, milk, and other goods.

The income produced by those high tariffs on foreign imports is used to pay for the surpluses. As it is, some 80 per cent of all Common Market spending is used for such supports—on dairy prices, wine, wheat, and the like.

But soybeans are an exception, American soybeans traditionally provide most of the protein for European livestock, since Europe grows few soybeans itself. Moreover, Europe's giant margarine makers rely on U.S. soybean oil.

Therefore, U.S. soybean imports won tariff-free entry into the Common Market in the early 1960s. Without this, it is believed that Europe would turn to Brazilian soybeans or other sources of protein.

This is where the "fat tax" comes in. Moves under way would tax imports of vegetable oils; such a tax would amount to a tariff on soybeans and soybean oil.

The idea has arisen over the years but always has been overshadowed by disputes over chickens, cheeses, even entrails, as the U.S. reacted and retaliated to what it saw as unfair exports subsidies by the Europeans or discriminatory tariffs against its own farm exports.

The latest olive oil outbreak was caused by Spain's desire to become the Common Market's 11th member.

Many Spanish farmers grow olive oil for a living. But Spanish oil prices, although high, are not as high as those within the Common Market. This means that, once Spanish olive oil is allowed to enter the Common Market freely, it will quickly undercut the prices of other growers—mostly from Italy and Greece.

Naturally, this is opposed by the powerful farm lobbies of Italy and Greece. The only solution—a natural one under CAP—is to raise the price of Spanish olive oil to the European level.

But there is one hitch to this. The higher price is considered certain to encourage more olive oil production in Spain. But the Common Market doesn't need more—Italy and Greece already produce all the Common Market wants. The upshot will be that "olive oil lake," a huge surplus that will probably cost the Common Market some $800 million a year to buy up and store.

This money has to come from somewhere, and the "fat tax," largely hitting U.S. soybeans, is one suggested answer. The idea is opposed within many Common Market countries—only half of the market's 14 commissioners are said to favor it—and it may never become a formal proposal.

But the U.S. has reacted hard.

Any such move "would lead to immediate counteraction," U.S. Agriculture Secretary John Block has said. Undersecretary Seeley Lodwick has said that the zero tariffs on European imports of U.S. soybeans is "not negotiable."

Without a good deal for its olive farmers, Spain probably will not enter the Common Market. American officials say they firmly support Spanish entry because it would strengthen that nation's new democracy, "but we don't see why we should have to pay the bill."

The U.S. sent a secret note to the Common Market in late summer, saying any "fat tax" would be illegal. Within the Common Market itself, this was regarded as diplomatic overkill.

"I don't think this tax will ever come to pass," one official said. "This idea is nothing new. It keeps coming around like the Loch Ness monster."

TESTIMONY OF DR. VERNON R. MCMINIMY, DIRECTOR OF COMMODITY RESEARCH, A. E. STALEY CO., BEFORE THE GOVERNMENTAL AFFAIRS SUBCOMMITTEE ON ENERGY, NUCLEAR PROLIFERATION AND GOVERNMENT PROCESSES, U.S. SENATE, OCT. 16, 1981, URBANA, ILL.

It is indeed an honor to appear before you today. You are to be congratulated on the timeliness of these hearings as there are many issues pending for those of us in the agriculture sector, pertaining to export trade opportunities. I commend you for your long time interest in foreign trade and your appreciation of its importance to U.S. agriculture. Your experience in the private sector has highlighted the opportunities in an expanded world of mutually advantageous trade.

I am Vernon McMinimy, Director of Commodity Research at A. E. Staley Manufacturing Company, Decatur, Illinois. The A. E. Staley Manufacturing Company is the largest corn refiner in the United States and the third largest processor of soybeans. We are a major user of corn and soybeans produced in Illinois and as such, have a significant interest in the maintenance of a healthy and prosperous agriculture in the State of Illinois.

Corn gluten feed is a major by-product derived in the wet milling process of obtaining starch, sweeteners and ethanol from corn. The value of corn to a wet milling processor is closely related to the sum of the value of primary and by-products obtained from the corn. Thus, we are very interested in obtaining and maintaining the best markets possible for all the products we derive from corn—including corn gluten feed.

Corn gluten feed is used as a livestock feed ingredient. It is primarily utilized as a feed ingredient in cattle and swine rations and may also be used to a limited degree in poultry breeder rations.

Senator, in recent months we have heard considerable concern expressed by various parties within the EC over the pending flood of grain substitute imports into their market and the need to protect their market from this flood. We have noted statements indicating they expect that by the mid-1980's corn gluten feed imports could reach and exceed the 10 million metric ton level—a fourfold increase over their imports in 1980. These fears have led some within the EC to call for barriers to be imposed, which would limit the imports of corn gluten feed.

We believe these fears are exaggerated in that they are not based on a clear understanding of the situation as it relates to the quantities of corn gluten feed they have imported in the past, nor the potential for imports in the future.

There is presently within the EC, considerable concern regarding the form and cost of their Common Agricultural Policy in general, and the role that corn gluten feed plays in this. We feel that your hearings are most appropriately timed, as any restriction on the imports of grain substitutes into the EC would directly affect our exports and the value of corn gluten feed.

We are very appreciative of the opportunity to testify as to our knowledge regarding the past and future exports of U.S. corn gluten feed to the EC.

U.S. EXPORTS OF CORN GLUTEN FEED, A LOOK AT THE RECENT PAST AND AHEAD TO THE MID-1980'S

Considerable interest has been expressed in the exports of so-called "grain substitutes" to the EC in recent years. The term "grain substitutes" covers a wide range of items from manioc to citrus pulp. Most of the items included in the category of "grain substitutes" are by-products that evolve from the process of obtaining a product of primary value.

There has been particular intest in the supplies of corn gluten feed, specifically in regard to the potential for the large increases in the exports of this material from the U.S. to the EC. Much of the concern over the potential of U.S. supplies of corn gluten feed arose with the development in the late 1970's of an aggressive U.S. Government sponsored program to produce ethanol with grain being used, at least initially, as the main feedstock. This program was a part of an effort to limit the United States' dependence on imported petroleum. In response to this program to promote the production of gasohol, a large number of construction plans and intentions were announced to construct facilities to produce ethanol from grains. These plans and intentions, if carried to completion, would have resulted in a large increase in the production of grain derived ethanol and a large increase in the supplies of the by-products, corn gluten feed and distillers dried grains. The prospect of a large quantity of by-product feeds becoming available, raised concern within the European Communities (EC) as the supplies of the by-product feeds, primarily corn gulten feed, have a strong propensity to flow into the European Communities market. In fact, essentially all (99 percent) of U.S. corn gluten feed exports from 1972 to 1980 have gone to the EC. The prospect of seeing these supplies increase fourfold, as projections based on a fullfledged gasohol program foresaw, by the mid-1980's from the 1980 level raised widespread concern among grain interests within the European Communities.

The concern of the EC grain interests arises out of the fact that corn gluten feed (and other grain substitutes) do, as the term suggests, substitute in feed rations for grain and protein meals ingredients. By-products are attractive to the EC compounders because by using the cheaper grain substitutes instead of grain, they can formulate a less expensive compound for many of the animal feed rations. At present, most compounders outside the EC cannot develop a price efficient ration using these by-products in large quantities. The fundamental reason for this apparent paradox is that grain produced within the EC is supported at a price which is well in excess of (often twice) the world market price. To ensure that EC grain prices stay at or above the support level, the EC requires that any imported grain pay a levy equal to the difference between the world price of grain and the EC support price of grain. This levy system serves to restrict the imports of cheaper world grains, thereby protecting the internal price. No such levy system applies to the by-products.

The value of the by-products is determined by it's feeding value (energy and/or protein) relative to that for the primary sources of energy and protein-grains and protein meals. In short, a compounder, given the composition and price of each ingredient available, can choose that quantity of each which will yield the compound product he wants at the cheapest price. The value of the by-product is essentially determined by the price of the items (grains and/or oilseed meals) which are primarily used to satisfy the need. Thus, maintaining the internal price of grains at levels well above world values imparts a higher value to grain substitutes used within the EC than they can command in use outside of the EC.

The supply of corn gluten feed is determined by the demand for the products of primary value, corn sweeteners, starch and ethanol. There is an impression among some in Europe that such must not be the case as the exports of corn gluten feed from the U.S. to the EC increased 3.65 times from 1972 thru 1980. It has been suggested that corn gluten feed was being produced as a product of primary value to take advantage of the good market in the EC. During the period 1972 to 1980, the value of corn gluten feed, as a percent of the cost of corn, has ranged between a low of 17.5 percent in 1974 to a high of 29.9 percent in 1979. The value of the three major by-products (see Table 1) varied from a low of 41 percent of the value of corn this year (1981) to a high of 64 percent in 1977 and 1978. Obviously, no one during this period is likely to have bought corn, paid the cost of processing to obtain corn gluten feed, meal, and corn oil, without obtaining something else, which has a much higher value per bushel of corn.

Having described the economic circumstances relating to corn gluten feed, I would like to examine the data relating to the production and usage of corn gluten feed in the United States. The attached Table 1, shows the production and usage of corn gluten feed for the period 1972 (calender years) to date. The data shows that in 1980 the production of corn gluten feed totaled 2.8 million metric tons, an increase of 1.3 million metric tons over the eight year period. The increase in production of corn gluten feed is the result of growth in the production of corn sweeteners and starch. During the period, the corn used to produce these products rose from 251 million bushels in 1972 to 445 million bushels in 1980, an increase of 77 percent. (Table 3) Essentially all of the increase in the production of corn gluten feed in this period is attributable to the rising production of corn sweeteners and starch.

Exports of corn gluten feed in the 1972 to 1980 period increased by 1.83 million metric tons and the domestic usage declined by 0.54 million metric tons. As a result, exports during the period increased by 0.5 million tons more than production. During the period 1972 thru 1975, domestic usage of corn gluten feeds tended to rise as production increased. Exports in this period were quite variable ranging from a high of 88 thousand metric tons in 1975 to a low of 64 thousand metric tons in 1974. From 1976, domestic usage steadily declined and exports rose sharply. Throughout the entire period under review, one thing is constant, and that is essentially all of the corn gluten feed exported, went to the EC.

The information shown in Table 3 helps explain why the corn gluten feed market shifted from the U.S. to the EC during the latter half of the 1970's. The reason is simply relative prices of grain. This can be most clearly seen in the comparison of the EC effective import price of corn with the price of corn at Chicago priced in terms of a European currency, Dutch Guilders (HF1).The narrowing of the price difference to 71.8 HF1 per metric ton level in 1974 was sufficient to reduce the flow of corn gluten feed to the EC. The sharp strengthening of EC grain prices relative to Chicago after 1975 directly corresponds to the increase in exports shown in Table 2.

The data clearly supports the proposition that the price of grain in the EC relative to the price of grain in the U.S. is the factor primarly responsible for most all of the U.S. corn gluten feed produced going into the EC market. In other words, the EC high price policy for grain is responsible for the U.S. exporting corn gluten feed to that market. As of calender 1980—the last complete year—exports to the EC accounted for 91 percent of the corn gluten feed produced from 1980 onward to experience a significant increase at the expense of the U.S. market as occurred in the last half of the 1970's. The expansion of corn gluten feed exports from now forward will be restricted essentially to the increase in production.

OUTLOOK FOR CORN GLUTEN FEED PRODUCTION

The increase in the production of corn gluten feed is tied to the increased production of corn sweeteners, starch, and corn alcohol. In the period 1972 to 1978 essentially all of the increase in corn gluten feed production resulted from the increase in the production of corn sweeteners. Corn sweetener production in this period grew at a 9.5 percent annual rate—a rate of growth we expect will continue into the mid-1980's. We would also expect the demand for corn starch to continue to increase at the rate experienced in recent years. Based on a recent extensive review of information relating to current plans for corn alcohol production, we project that the production of alcohol derived from corn will result in the usage of 108 million bushels more corn by 1985 than that used in 1980. In 1985 the usage of corn for the production of corn sweeteners and starch is expected to use 512 million bushels of corn—194 million bushels more than used in 1980. Given these increases in the production of primary products, the production of corn gluten feed in 1985 would total 4.52 million metric tons, up 1.72 million tons over that produced in 1980. About 35 percent of the increase in the supply of corn gluten feed between 1980 and 1985 will come from the growth in the production of sweeteners and starch.

We expect that exports of corn gluten feed will continue to account for up to 95 percent of the total usage as compared to 90 percent in 1980. If this proves to be the case, then exports in 1985 would total 4.29 million metric tons—1.75 million tons above the amount exported in 1980. This would compare to an increase in exports of 1.66 million metric tons experienced in the five year period 1975 to 1980. Essentially, all of the increase in exports would go to the EC in the next five years as it has over the previous five years.

The production of corn gluten feed contained in those projections are far below some projections made earlier. The earlier projections were based on the assumption that alcohol production from corn would experience a very rapid growth in response to substantial financial assistance from various government energy programs and continued rising petroleum prices. However, since these earlier projections were made, several changes have occurred which diminished the prospects for the expansion in the production of alcohol from corn. Among these changes are:

(1) Cuts in the federal budget that removed a large part of the funds expected to be devoted to developing the corn alcohol industry;

(2) Petroleum prices have stabilized and in recent months,

(3) Interest rates rose sharply and;

(4) The 1980 corn crop was below expectations resulting in higher corn prices.

All of these changes have resulted in a substantial reduction in the plans to develop the corn alcohol industry.

As indicated earlier, we have recently surveyed our rather extensive information relating to current plans in existence for continuing with efforts to develop corn alcohol production. The results are shown in Table 5. As the data in Table 5 indicate, much of the increase in fuel alcohol production will be accomplished by mask fermenters, whose by-product is distillers dried grains, a product that up to this point has not been exported in large volume.

In summary, our analysis leads us to two major conclusions; first, the EC purchases most all of the corn gluten feed produced in the U.S. and will continue to, so long as their internal grain price remains well above world market levels, and second, the growth in the production of corn gluten feed over the next several years will be much less than earlier studies had projected and as a result, corn gluten feed exports by 1985 will be near 4¼ million metric tons—not 10 million metric tons or more as some have expected.

Thank you,

CO-PRODUCT RECOVERIES

	Corn	Feed 12.5¢/Bu.			Meal 2.5¢/Bu.		Corn Oil 1.55¢/Bu.		Total	%
	$/Bu.	$/Ton	$/Bu.	% Corn	$/Ton	$/Bu.	$/Lb.	$/Bu.	Rev. ¢/Bu.	Corn
1972	1.30	50.97	.319	24,5	139.11	.174	16.37	.254	.747	57.5
1973	2.20	84.45	.528	24.0	259.19	.324	22.72	.352	1.204	54.7
1974	3.20	90.50	.566	17.7	229.93	.287	41.30	.640	1.493	46.7
1975	2.91	86.01	.538	18.5	215.60	.270	32.53	.504	1.312	45.1
1976	2.70	100.15	.626	23.2	249.09	.311	25.63	.397	1.334	49.4
1977	2.22	101.43	.634	28.6	252.52	.316	30.68	.476	1.426	64.2
1978	2.31	96.75	.605	26.2	234.60	.293	35.98	.558	1.456	63.0
1979	2.64	126.22	.789	29.9	274.48	.343	32.43	.503	1.635	61.9
1980	3.01	124.75	.780	25.9	255.48	.319	26.34	.408	1.507	50.1
1981 2nd Qtr.	3.47	118.22	.739	21.3	250.75	.313	24.80	.384	1.436	41.4

TABLE 2

U.S. CORN GLUTEN FEED
PRODUCTION/USAGE

	Production	Domestic Usage	Exports(2	Exports to EC
		mil. metric tons		
1972	1.51	.80	.71	.69
1973	1.61	.81	.80	.78
1974	1.64	1.17	.64	.63
1975	1.86	.98	.88	.83
1976	1.93	.89	1.04	1.01
1977	2.03	.61	1.42	1.39
1978	2.24	.57	1.67	1.64
1979	2.49	.49	2.00	1.98
1980	2.80	.26	2.54	2.52
		Projected		
1981	3.06	.15	2.91	2.89
1982	3.57	.18	3.39	3.37
1983	3.86	.19	3.67	3.65
1984	4.17	.21	3.96	3.94
1985	4.52	.23	4.29	4.27

1) Wet millers production from CRA report plus estimated production from non-reporting firms.

2) Census class corn feed and meal.

VRM:o
9/21/81

TABLE 3

CORN AND CORN GLUTEN FEED PRICES

Average $/MT

Calendar Year	EC effective Import Price for Corn	Chicago No. 2 Yellow	U.S. f.o.b Corn Gluten Feed
1972	110.44	49.21	67.60
1973	136.33	86.12	107.28
1974	153.20	126.44	114.17
1975	165.54	113.74	111.03
1976	174.89	106.10	127.86
1977	261.52	86.97	133.39
1978	236.31	90.94	135.26
1979	257.71	104.00	163.15
1980	275.85	118.46	169.04

Hfl per MT

				EC Import Price for corn less Chgo. No.2 yellow U.S., f.o.b.
1972	339.4	151.2	207.8	188.2
1973	380.6	240.4	299.5	190.2
1974	411.2	339.4	306.4	71.8
1975	418.3	287.4	280.6	130.9
1976	462.8	280.7	338.3	182.1
1977	640.0	213.2	326.9	426.8
1978	510.2	196.3	292.0	313.9
1979	515.2	207.9	326.1	307.3
1980	545.9	234.4	334.5	311.5

VRM:o
9/21/81

TABLE 4

CORN UTILIZED FOR THE PRODUCTION OF SELECTED INDUSTRIAL PRODUCTS CALENDAR YEARS 1972-1980
with PROJECTIONS FOR 1981 thru 1985

	Starch	Sweeteners	Alcohol	Total	Production Corn Gluten Feed
		mil. bu.			mmt.
1972	97	154	-	251	1.46
1973	109	178	-	287	1.67
1974	115	196	-	311	1.81
1975	105(1	215	-	320	1.86
1976	98	228	-	326	1.93
1977	105	242	-	347	2.03
1978	113	266	-	379	2.24
1979	116	298	7	44	2.49
1980	120	325	32	477	2.80
			Projected		
1981	115	363	48	526	3.06
1982	120	394	102	616	3.57
1983	122	431	112	665	3.86
1984	125	469	124	718	4.17
1985	127	512	140	779	4.52

Table 5

Projected Fuel Alcohol Production and Feed by-products

	Wet Milling			Mash Fermenters	
	mil. gal. yr.	mil. bu. yr.	000 metric tons CGF	mil. gal. yr.	000 metric tons DDGS
1980	80	32	185	-	-
PROJECTION					
1981	120	48	279	20	65
1982	255	102	591	100	327
1983	280	112	650	200	653
1984	310	124	720	320	1043
1985	350	140	813	420	1360

[The following statement was inserted at the request of Senator Percy:]

Statement of Sheldon J. Hauck, President, National Soybean Processors Association, Before the Subcommittee on Energy, Nuclear Proliferation and Government Processes, Friday, Oct. 16, 1981, Urbana, Ill.

Good Morning, Senator Percy. My name is Sheldon Hauck and I am President of the National Soybean Processors Association. Appearing with me today on this panel are Mr. Allen Aves, Immediate Past Chairman of the American Soybean Association, Mr. Jerry Gates, President of the Land of Lincoln Soybean Association, and Dr. Steven Schmit, Professor of Agricultural Economics at the University of Illinois.

I am sure that I speak not only for the members of this panel, but also for the industries which we represent, soybean growers and processors alike, in expressing our heartfelt appreciation to you for your keen interest in the critical international trade problems facing the American soy complex as shown by your initiative in having this hearing today.

The organization which I represent, the National Soybean Processors Association, is the trade association of America's soybean processors. Our members process and market more than 95 percent of all soybeans crushed within the continental United States. From nearly 80 processing centers in every major region of the country, NSPA members serve the American agricultural community, American consumers, and world markets.

During the most recent marketing year ending September 30, 1981, over one billion bushels of the 1.8 billion bushels harvested in the United States moved through the processing plants of our association's 23 member firms. Approximately 56 percent of our nation's soybean crop is bought and processed by NSPA members.

International trade is vital to the economic health of our nation's soybean growers, processors, and exporters. Of a 1.8 billion bushel crop harvested during the 1980/81 marketing year, having an aggregate value of $13.7 billion, the U.S. exported 720 million bushels of soybeans valued at $5.4 billion, 6.8 million short tons of soybean meal valued at $1.5 billion, and 1.5 billion pounds of soybean oil valued at $345 million, for an aggregate export trade value of $7.2 billion. Exports represented approximately 40 percent of the soybean crop, 28 percent of the soybean meal, and 13 percent of the soybean oil production.

However, the 1980/81 trade performance is down from the 1979/80 performance on all counts. Exports of soybeans declined by 155 million bushels, exports of soybean meal declined by 1.1 million short tons, and exports of soybean oil declined by 1.2 million pounds. The total export dollar loss for the 1980/81 marketing year as compared to the 1979/80 marketing year was approximately $1.5 billion.

To be sure, while changing export performances from year to year can often be explained by changing economic conditions, unfair trade policies of foreign governments and organizations have distored our international export markets and negatively impacted the U.S. share of those export markets. What's more, ominous protectionist developments in Europe and unfair subsidies in South America portend a much greater negative impact upon U.S. soy complex exports in the future if they are not vigorously opposed by our government and arrested in their incipiency.

I would like to discuss with you today the three trade policy developments abroad which have given our industry great concern over the past several years and which we confront with the greatest of urgency today. Specifically, I refer to (1) restrictions on the domestic consumption of soybean oil imposed by the Government of Spain through quotas and pricing policies, (2) proposals by the European Economic Community for a tax on vegetable oils and fats, and (3) subsidization of soybean meal and oil exports by our South American competitors, Brazil and Argentina. Since these developments are worsening, rather than improving, I shall also suggest what needs to be done by U.S. trade officials to effectively come to grips with these problems.

SPANISH PROTECTIONISM

Our problem with Spain stems from the initiation by Spain in 1975 of a domestic quota on the amount of soybean oil which can be sold in Spain, a quota which has been set at progressively lower levels over the past five years. As a result, soybean oil now only represents 12 percent of Spanish vegetable oil consumption, less than half of what it was 10 years ago. In addition, since Spanish domestic consumption of soybean oil is restricted, most of the soybean oil produced by Spanish crushers must be exported to third countries.

While Spain produces only 1 percent of its soybeans and imports most of its beans from the United States, the U.S. had a remarkable expectation that the oil component of U.S. beans crushed in Spain would be allowed to be sold in Spain. However, Spain acted to protect domestic producers of olive oil and sunflower oil through establishment of this quota system. Not only does this system deprive the U.S. of a natural Spanish domestic market for soybean oil produced in Spain from U.S.-origin soybeans, but also it distorts international trade patterns by displacing markets for U.S.-origin soybean oil in third countries.

This international trade distortion effect is exacerbated by a Spanish pricing system for soybean oil which subsidizes Spanish crushers' margins on domestic soybean oil sales by approximately $100 per metric ton. This subsidy enables Spanish crushers to be extremely price competitive vis-a-vis the United States on soybean oil which has been purposely diverted to third country export markets.

As a result of these practices, Spain has been able to steadily increase its share of the total world market in soybean oil from 8.1 percent in the 1976/77 marketing year to 17 percent in the 1980/81 marketing year. To illustrate the effect of the Spanish practices in concrete market situations, we turn to three examples in North Africa and the Middle East—Turkey, Morocco, and Tunisia, where Spain has been able to increase its soybean oil export by 223 percent, 229 percent and 332 percent, respectively, over the 1976–1980 period.

THE SPANISH-EUROPEAN CONNECTION

While the impairment of U.S. trade benefits through Spanish restriction of our access to their domestic market for soybean oil crushed in Spain from U.S.-origin soybeans is troubling enough, and U.S. loss of third country export markets by virtue of Spain's unfair and protectionist scheme even more troubling, what's most disturbing to us transcends the nullification and impairment of our trade advantages which we are currently experiencing at the hands of Spain. What's most disturbing to us is the probable effect of the Spanish system upon Spanish accession to the European Economic Community.

Indeed, if Spain is permitted to accede to the EEC with its quota and subsidy system intact, the EEC will be provided with an extremely dangerous precedent for adopting the same or similar procedures throughout the Community. While ostensibly the EEC would adopt such a system to deal with structural excesses in olives and olive oil occasioned by the accession of Greece, Spain and Portugal to the Community, more fundamentally the EEC would utilize such a system to obviate or negate the zero-duty bindings enjoyed by the United States on exports of U.S.-origin soybeans and soybean meal into the Community.

The EEC agreed to a zero-duty binding on soybeans and soybean meal imports during the Dillon Round of Multilateral Trade Negotiations. Since soybean meal in combination with manioc imported from Thailand has a price advantage for livestock feed in the EEC over grains grown within the EEC, U.S. exports of soybeans and soybean meal to the EEC have flourished over the last two decades. For instance, during the 1979/80 marketing year, $3.7 billion, or 43 percent of U.S. export earnings from the soy complex, came from the EEC.

The potential loss of a $4 billion export market by the United States is of grave concern. If the practices which the United States is currently experiencing with Spain are permitted to spread throughout the EEC, we can expect significant declines in U.S. exports of soybeans and soybean meal to the EEC as well as worldwide disruption of U.S. export markets for soybean oil in third countries as the EEC diverts its subsidized production abroad.

As you can see, the stakes are high and the United States cannot run the risk of significantly undermining its own export performance by permitting the EEC to nullify or impair the duty-free access of U.S.-origin soybeans and soybean meal to the European market. Although the United States supports the accession of Spain to the EEC to promote European cohesion, the American soy complex—farmer, processor, and exporter—must not be forced to pay a $4 billion price for that support.

WHAT NEEDS TO BE DONE

Given the underlying importance of our dispute with Spain for our entire European trade and worldwide markets, our industry was heartened when the U.S. Trade Representative's Office filed a GATT complaint against the Spanish system on their own initiative in 1979. Although our industry repeatedly offered our assistance to USTR, we were repeatedly assured by them that the Spanish system was a clear-cut violation of GATT and that the U.S. would win the case before a GATT Panel. When the GATT Panel rendered a decision unfavorable to the U.S. in December 1980, we were naturally astounded. Since that time we have endeavored to find out why the result reached by the GATT Panel was so at odds with what USTR assured us would be the result. First and fundamentally, it is apparent to us that USTR charged with the successful prosecution of this case before the GATT, initially did not understand or appreciate its full ramifications and significance. This is reflected not only in the documents filed by the U.S. with the GATT Secretariat, but also in the relatively low level of official representation before the GATT. In addition, following the unfavorable Panel Report, it has not been apparent to us that USTR has undertaken efforts at an appropriately high level to ensure (1) that the GATT Panel Report is utterly discredited before the GATT Council and (2) that the U.S. and Spain initiate serious negotiations to phase out the Spanish system prior to Spain's accession to the EEC.

Second, it appears to us that the USTR did not effectively prosecute the case before the GATT in Geneva. We are reliably informed that the Europeans, understanding the significance of this case, gave their full assistance to the Spanish, and that they effectively "lobbied" the GATT Panel. The United States Government, on the other hand, proceeded on its own, did not take advantage of the assistance and expertise offered by the the affected U.S. industry, lobbied no one in Geneva, and made no effort to line up support for the U.S. position in Europe prior to the publication of the panel report.

When we came to these conclusions last Spring, we immediately began sounding alarms at high levels and key industry officials met with Ambassador Brock and Secretary Block, among others. We are very heartened by their strong support and the efforts which they initiated. However, we would have hoped that greater efforts would have been undertaken by the United States over the past four months to follow through on those initiatives at the foreign ministerial and ambassadorial level in foreign capitals to line up firm support for the U.S. position in order that the GATT Panel Report may be thoroughly discredited in the GATT Council. Instead, USTR subordinated the resolution of the U.S. soy complaint against Spain to the 10-year old DISC case. Only just last week, have our officials begun to do what is necessary in foreign capitals at the level of representation necessary.

Clearly, in light of the magnitude and importance of this case, continued high-level involvement and commitment by the U.S. is necessary to press for the successful resolution of this case on two fronts: First, the GATT Panel Report must be thoroughly discredited in the GATT Council on November 3. The U.S. should seek strong and firm commitments from other countries to support the U.S. position through effective U.S. representations in foreign capitals at the ambassadorial and foreign ministerial level. Second, once the GATT case has been resolved, the U.S. should press for a negotiated phase-out of the Spanish practices prior to Spain's accession to the EEC. In our industry's view, this matter deserves Cabinet-level attention at a minimum. To do less, in our opinion, will jeopardize continued zero-duty access for U.S.-origin soybeans and soybean products into the EEC.

EEC PROPOSALS FOR A TAX ON VEGETABLE OILS AND FATS

Turning briefly to the second major trade policy development abroad which gives our industry great concern, the EEC Commission perennially proposes some form of a tax on vegetable oils and fats whenever they do their arithmetic on what the Common Agriculture Policy is costing them and what it will cost them when Greece, Spain and Portugal all become full members of the Community. Due to the costs of subsidizing the structural surpluses of olive oil which will exist, the EEC Commission, in casting about to find some means to tranfer socioeconomic costs of their agricultural policies abroad, periodically settles on the vegetable oil tax idea.

When last proposed in the Spring of 1980, the tax took the form of a $140 a ton levy on vegetable oils and fats. As described at that time in the German press, the tax was intended as a multi-purpose weapon—(1) to procure necessary funds for the EEC Commission's agricultural subsidy fund and supply the Community with more revenue, (2) to artificially raise the price of margarine and vegetable oil to promote the competition of butter and protect the dairy farmers, (3) to make farmers' soybean meal economically unpalatable for livestock feed so that they will feed their stock more grain grown in the EEC, thereby securing a larger domestic market for EEC farmers, and (4) to protect expensive olive oil from competition when Spain, Portugal, and Greece become full members of the Community.

Recently, the Community considered a new proposal to tax vegetable fats and oils. Clearly, such a tax, if adopted, would affect the consumption of soybean oil crushed in the EEC from U.S.-origin beans and discourage the utilization of soybean meal in feed formulation. Accordingly, such a tax represents a clear nullification and impairment of the zero duty bindings on soybeans and soybean meal obtained by the United States from the EEC during the Dillon Round of Multilateral Trade negotiations. In the final analysis, the EEC is asking the American farmer to pay for the costs of its own subsidization of uneconomic production. As we indicated earlier, the loss of a $4 billion Unites States export market is at stake. Our trade officials must vigorously oppose this effort to seriously erode U.S. exports.

WHAT NEEDS TO BE DONE

Our industry applauds Secretary Block's strong statements of opposition to the EEC vegetable oil tax proposals during his trip to European capitals last Spring. Coming from the largest soybean-producing state in the country and being a soybean grower himself, the Secretary fully understands the full import of the proposed tax. At this juncture, we believe that the following actions must be taken to follow through on the Administration's excellent beginnings:

First, the Administration should make clear its commitment that the zero-duty bindings on soybeans and soybean meal into the EEC are inviolable, are not subject to negotiation, and will be vigorously safeguarded by the United States. This is a matter for Cabinet level attention.

Second, strong U.S. opposition to any renewed vegetable oil tax proposals must be made known in the capitals of EEC Member States at the foreign ministerial and ambassadorial level.

Third, the U.S. should encourage other exporting countries which would be negatively affected by the EEC tax to also make their opposition known.

To fail to take these actions would send a signal to Brussels that United States trade policy is adrift and that the Community's turn towards greater restrictionism and subsidization will be countenanced by the U.S. The American farmer cannot afford such a failure of U.S. trade policy. Neither can our nation's export performance nor U.S. foreign relations with the Community afford such a policy failure.

BRAZILIAN AND ARGENTINE EXPORT SUBSIDIES

But our industry's foreign trade policy concerns do not stop with the EEC. We have long been beset with a variety of subsidies for exports of soybean meal and oil by our South American competitors, Brazil and Argentina.

The United States, Brazil, and Argentina have together supplied over 95 percent of the world export market in soybeans over the past five years. During that period, the U.S. share of that market has remained relatively constant at approximately 80 percent. However, the respective U.S. and Brazilian shares of the world export markets in soybean meal and oil have shifted during that period, largely due to Brazilian differential export tax and preferential financing schemes which encourage exports of soybean products over raw beans.

Accordingly, Brazil, having a 14.1 percent share of world soybean exports in the 1976/77 marketing year, declined to 3.6 percent in 77/78, and 2.3 percent in 78/79, and remained low at 4.3 percent in 79/80, and 6.6 percent in 80/81. In contrast, Brazilian meal exports surpassed U.S. exports in 1977 and—but for poor Brazilian performance in 1978 and 1979 and the large U.S. crop and crush in 1979—have continued to grow. In the marketing year ending September 30, 1981, Brazil held 41 percent of the world export market in soybean meal, versus the 33 percent for the United States. Generally, the same can be said for the comparative export performance of the United States and Brazil in soybean oil; however, both countries' market shares have been negatively affected by the Spanish quota and subsidy system which I described earlier. Suffice it to say, however, that Brazil captured 37 percent of the world export market in soybean oil in the 1980/81 marketing year compared to 31 percent for the United States.

Unlike Brazil, Argentina has tended to trade in raw beans rather than soybean products. However, in 1980 the Argentine Government instituted a system of export rebates on soybean oil and soybean meal, which, if unopposed by the United States, in the future will have the same effect as the Brazilian subsidies have had over the last five years, namely, the continuing erosion of the United States' share of world markets in soybean products. Since our industry buys most of the American farmer's soybean production, such a loss by the United States in the world market share for soybean products ultimately translates into a loss in Amercian farm income.

WHAT NEEDS TO BE DONE

Unfortunately, it has been very difficult for both our industry and our government to come to grips with the Brazilian and Argentine subsidy schemes. It seems that we're dealing with a moving target that changes every time the mimeograph machine turns out a new revision of the export tax differentials, fianancing preferences, and export rebates. At the same time, however, it does not appear to us that USTR has devoted adequate efforts towards coming to grips with these problems despite our repeated requests that they do so. We strongly believe that the Administration should commit itself to negotiating bilateral phase-outs of the Brazilian and Argentine subsidy schemes. At this time, however, it does not appear that it has even begun to gather the information necessary to understand the nature and extent of those schemes and their effects upon U.S. export markets.

It should be noted that such a commitment and action by the Administration is not an impossible mission. In 1976, under the leadership of then-Secretary of the Treasury William Simon, the United States and Brazil reached an agreement whereby Brazil phased out the particular export subsidies on soybean oil which were then being applied. We need similar action by alert U.S. trade officials today.

CONCLUSION

In closing, Senator Percy, I hope that our industry's views on the key trade policy issues facing us will be helpful to your Committee's continuing inquiries. Indeed, such bread-and-butter trade policy issues, when left to fester, eventually become critical foreign policy questions.

With respect to the European Community, we share Secretary Block's concern "about developments that might lead to greater instability in world trade and greater restrictionism in the European market. We are concerned with the Community's future relations with the United States both as a market and as a competitor." With respect to the Brazilian and Argentine practices which we have described, we believe that this principle applies—"Trade that is not fair cannot long remain free." Finally, in light of our experience with the U.S. foreign trade policymaking apparatus in addressing these critical trade matters, it appears to us that our own government has been short on action and understanding and that U.S. trade policy in the agricultural sector has been dangerously adrift in recent years.

The American farmer cannot be made to pay for continuing failures of the American foreign trade policymaking process. Nor can our Nation's balance of payments tolerate a failure of the magnitude which is on the horizon if the matters which we have described are not effectively addressed by our foreign trade policymakers.

We would be happy to supply for the record any additional information which you may wish on the matters which we have testified today. Our industry stands ready and willing to cooperate with you and with your Committee in any way possible to see to it that these critical foreign trade policy issues are effectively addressed by our government.

Thank you very much for your time and interest.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. Chairman, I am pleased to give you a summary of my discussions with European officials last week. I had meetings with officials of the British, German, and French Governments, including the Ministers of Agriculture and Trade in each case. Secretary Block and I also met for two days with officials of the European Community in Brussels. We discussed the U.S. and world economic situation and heard explanations of how the European Community feels it is living up to its international obligations. EC officials cited the CAP as the cornerstone of the Community. They emphasized that attacks by the United States on the CAP represent a threat to EC unity. They said that the United States had pledged itself not to attack the CAP and we were urged to stop doing so.

I responded that the CAP is the business of the EC, but when its manifestations fall on us or our competitive position in third country markets, we would not be prevented from expressing our concerns.

EC officials told me that imports of corn gluten feed made difficult their attempts at restructuring the CAP and asked for restraints on such exports. I pointed out the difficulty I had in accepting such logic since we felt the reason for our exports of corn gluten feed to the EC was their high domestic price support system for cereals.

I told them that we would not bear the blame nor the burden for their unwillingness to restructure their own program.

Another matter discussed was sugar, where I noted that it was the price depressing effect of EC export subsidies that had driven down the world sugar price and created what our industry perceives as a need to protect its own home production.

In third country markets, we noted the problems with displacement of U.S. exports of wheat, wheat flour, poultry, sugar, and other processed products caused by EC subsidies.

The discussions were very frank. The areas of disagreement were numerous. We agreed to continue to consult with one another to try to avoid taking actions that would prejudice trade of others. Our European counterparts will be coming to the United States to continue these discussions in early February.

Mr. Chairman, I will be pleased to answer your questions.

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C., January 7, 1981.

Hon. WILLIAM BROCK,
Special Trade Representative,
Office of the Special Trade Representative.

DEAR MR. AMBASSADOR: Enclosed are questions submitted by Senator Hawkins regarding the Senate Agriculture Subcommittee hearing on the trading relationship between the United States and the European Economic Community. It would be most helpful to the Committee to have your insight on the issues raised by Senator Hawkins' questions.

Senator Hawkins has requested that a copy of your responses be sent directly to her office, and a copy should be mailed to the Agriculture Committee to the attention of Denise Alexander.

With kindest regards.

Sincerely,

JESSE HELMS, *Chairman.*

OFFICE OF THE U.S. TRADE REPRESENTATIVE,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, D.C., February 2, 1982.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry,
U.S. Senate, Washington, D.C.

DEAR JESSE: Thank you for your letter of January 7, 1982, forwarding a number of questions submitted by Senator Paula Hawkins concerning the trade relationship between the United States and the European Community (EC). My responses to these questions are set forth below.

Question 1. In general, how do the agricultural trade policies of the EC compare with trading policies of other major trading nations or groups of nations?

Answer. Making a general comparision of national (or supra-national) agricultural trading policies is, of course, difficult in view of the complexity and variety of policies throughout the world. The policies pursued by the EC as concerns agricultural trade are not unique. Many other countries fix agricultural support prices well above the normal level of world prices and, in consequence, impose significant barriers to imports (such as variable levies) and/or grant subsidies for agricultural exports. There are, however, several factors which make the policies pursued by the EC and their effects on world agricultural trade particularly disturbing to the U.S. and to other agricultural exporting countries.

First of all, there is the sheer size of the EC markets and the EC agricultural industry. The EC is the world's largest importer of agricultural products. In 1980, their imports of agricultural products from outside the Community totaled nearly $60 billion; their imports of agricultural products from the U.S. totaled over $11 billion in that year, making the EC, as a unit, by far the largest market for U.S. farmers. EC agricultural exports are also quite substantial—$27 billion in 1980—and they have been growing at a considerably faster rate than their imports.

Because of the magnitude of EC production and trade, the impact of their policies is always of major consequence to the world agricultural community and the long-term effect of their policies, since the inception of the Common Agricultrural Policy in the early 60's, has been to increase quite significantly their self-sufficiency in most agricultural products and their export presence in the world market.

In addition to its size, the EC is also somewhat unique in that its agricultural policies and the effects of those policies are still evolving. The application of a common policy to first six, then nine, and now ten different national agricultural industries—normally with the adoption of support prices and systems acceptable to the least competitive country in the Community—has, in our view, substantially altered the production and trade patterns of the member countries of the EC. As pointed out above, we believe that this impact has been to the detriment of agricultural exporting countries.

Finally, it should be noted that EC support prices are nearly always much higher than those of all other major agricultural exporters for such products as wheat, barley, rice, poultry, dairy products, sugar, and beef, where the Community is an important exporter. The impetus these prices have given to EC production has resulted in a massive recourse to export subsidies on their part. The adverse effects of these pricing and subsidy practices have been made all the worse by the almost complete absence of effective EC policy tools for restraining excess production.

Question 2. As one of the leading experts on 301 petitions under GATT, will you explain to this Subcommittee the steps involved in the petition process? How are decisions enforced?

Answer. Under Section 301 of the Trade Act of 1974, as amended (19 U.S.C. 2411), a party may request that a matter be referred to dispute settlement procedures under the GATT or one of the MTN Codes by filing a petition with the Office of the U.S. Trade Representative (USTR). Requirements for filing such petitions are specified in regulations published in 15 CFR Part 2006 (45 Fed. Reg. 34870, 1980). When a petition is received at USTR, it is circulated to members of the interagency Section 301 Committee chaired by a USTR member and comprised of representatives from the Departments of Agriculture, Commerce, Interior, Justice, Labor, State, Transportation, and Treasury, and from the Council of Economic Advisers and the International Trade Commission. Within 45 days the Committee reviews the petition and, with the advice of the Committee, the U.S. Trade Representative decides whether to initiate an investigation into the allegations contained in the petition.

If the Section 301 case is initiated, USTR immediately requests consultations with the foreign government involved regarding the issues raised in the petition. In most of the 301 cases currently pending, USTR is following the dispute settlement procedures set forth in the GATT Subsidies Code. Those procedures provide for a 30 or 60-day consultation period (depending on the type of subsidy involved), followed by a 30-day conciliation period. If conciliation efforts fail, a case may be referred to a Subsidies Code Panel which takes about 30 days to establish and which has 60 days to review the case and report to the full Subsidies Code Committee. Within 30 days thereafter, the Code Committee will make recommendations to the parties with a view to resolving the dispute. The entire process takes a minimum of 6 or 7 months from the time the investigation is initiated, and the USTR has only 7 or 8 months (depending upon the type of subsidy involved) to make a recommendation to the President.

The procedures and time limits are different for GATT cases which are not brought under the Subsidies Code, but this particular procedure provides a useful example of how the Section 301 process works. To date, no case has been taken all the way through the Subsidies Code dispute settlement process, but a Panel will be meeting in February to consider the United States' complaint regarding EC export subsidies on wheat flour.

Question 3. What is the status of the U.S. citrus industry's 301 petition under GATT? On sugar?

Answer. We have recently informed the EC that the United States intends to request formal consultations with the EC under GATT Article XXIII:1 concerning EC tariff preferences on citrus fruit. We are currently comparing EC trade data on citrus to U.S. trade data, to prepare for those consultations. While the GATT includes no specific time limits, we intend to proceed promptly in this case.

The Section 301 case regarding sugar is proceeding under the Subsidies Code dispute settlement process described above. Consultations with the EC are scheduled for February 16, 1982, in Geneva.

Question 4. What are your views on trade embargoes in general?

Answer. This administration is committed to liberalization and the expansion of trade. Thus, we have a strong aversion to the use of trade embargoes. There are, however, extreme circumstances where we believe that, in the interest of long-run national security, we would have no recourse but to impose a trade embargo.

As the President has clearly stated, a further deterioration of the Polish situation could result in such a decision being made. I should point out, however, he has also made clear that a trade embargo would not be imposed on agricultural exports alone, but would be applied across the board.

I hope the responses provided above prove helpful to you and to Senator Hawkins.

Very truly yours,

William E. Brock.

Statement of Robert D. Hormats, Assistant Secretary of State for Economic and Business Affairs, U.S. Department of State

I appreciate the opportunity to appear before this Subcommittee to discuss on U.S. agricultural trade with the European Community, particularly in view of the December 11, meeting of Secretaries Haig and Block and U.S. Trade Representative Brock with European Commission President Gaston Thorn and other EC Commissioners. Before describing this issue in greater detail, however, I want to discuss the relationship of agricultural issues to our broader trade relations with the Community and recent developments in that relationship. Finally, in response to the Subcommittee's request, I will discuss briefly the role of the State Department in ongoing efforts to facilitate agricultural trade.

THE IMPORTANCE OF AGRICULTURAL TRADE

There is scarcely a need to remind this Subcommittee of this Administration's commitment to building a world trading system which provides increased opportunities for agricultural exports. This flows naturally from the importance of the role of agricultural trade in total U.S. trade and in our trade with the European Community. U.S. agricultural exports will total about $45 billion in 1981, about 20 percent of all U.S. exports. Our agricultural exports to the European Community in 1980 were $8.9 billion; total U.S. exports to the EC amounted to $45 billion. Because EC exports to us amounted to $27 billion, our overall positive trade balance was about $17.6 billion—$6.8 billion in agricultural trade alone. The size of our agricultural exports reminds us of the very large stake we have both in maintaining our access to the European Community market and in protecting our sales in third markets.

THE SETTING FOR U.S.-EC AGRICULTURAL TRADE

Trade, and especially agricultural trade, does not, of course, take place in a vacuum. Domestic policies and aspirations define foreign trade and policy issues on both sides of the Atlantic. Our domestic agricultural policies largely reflect our market-oriented economic philosophy, with use of non-market support prices in only a few commodities, such as dairy products, sugar, peanuts and tobacco. The European Community's Common Agricultural Policy—the CAP—was developed in the 1960's primarily to create a unified internal market, ensure increasing farm income and promote greater self-sufficiency in food supplies.

The CAP assures high guaranteed farm support prices for virtually all EC agricultural commodities, and for processed fruits and vegetables, most oilseeds and a variety of other products. The CAP is implemented by applying three main principles;

Community preferences protect Community production by means of tariffs and variable import levies to bring the prices of imported commodities up to EC levels.

Common pricing policies establish a single price for commodities throughout the EC; this in turn requires a system of border taxes and compensatory payments.

Common financing distributes the cost of the CAP among the member states.

The CAP served political objectives as well, binding together the original 6 members of the European Community. It serves even today as the most visible linkage among the 10 member countries.

The original objectives of the CAP have largely been achieved. However, high levels of incentives and the absence of meaningful production controls led first to self-sufficiency and then to large surpluses. For instance, EC self-sufficiency in 1978-79 was 118 percent of requirements in soft wheat, 113 percent in barley, 124 percent in sugar and 119 percent in butter. The costs of the CAP have approached staggering levels—about one half of one percent of the Community's Gross Domestic Product. The EC itself spends over $18 billion—70 percent of its budget—to buy and store agricultural commodities and to subsidize the export of surplus production. The total cost, when member state expenditures for national farm programs are included, approaches $40 billion. The cost to EC consumers, who pay both high prices for food and subsidize the export of surplus production through their taxes, is enormous.

The Community response to the problems of surplus has been an aggressive and heavily subsidized export program. The EC is now the third largest exporter of wheat, the world's largest export of poultry and the second largest exporter of beef. It is a major and growing exporter of dairy products and sugar, as well as processed agricultural products. Community agricultural trade policies restricting imports and subsidizing exports cause problems with both developed and developing country producers alike. On one hand, Community tariffs and variable levies limit the access of efficient agricultural producers to the EC market. The EC in the 1960's was a net importer of about 20 million tons of grain per year; in 1980–81, the EC was a net grain exporter. On the other hand, the EC's subsidized exports displace the more efficient producers in third country markets, and depress world prices.

The Subsidies Code prohibits the use export subsidies of certain primary products which result in the exporting country gaining more than an equitable share of world trade or result in prices below those of other suppliers to the same market. Although both the U.S. and the EC have signed the Code, we differ fundamentally on the proper role of subsidies. We oppose subsidies in principle. The EC position is that their use is acceptable, as long as the conditions of the Subsidies Code are observed. We are presently challenging in the GATT whether EC export subsidy practices on wheat flour, poultry and pasta are in fact consistent with the Code.

Operation of the CAP has also contributed to internal EC tension. Although the CAP has general support and all member states have domestic agricultural interests that benefit, some clearly profit more than others. Many within Europe believe that northern European agricultural producers, especially of wheat, milk, butter and cheese, have benefited more than Mediterranean producers of fruits and vegetables, wine and vegetable oils. To the tensions between producers are added those of budget contributions. The United Kingdom re-negotiated its budget contributions after a long and acrimonious debate centered in part on the cost of supporting the CAP. Divisions between the interests of small farmers versus larger, more-efficient farmers complicate the picture. Because the price support mechanism of the CAP is essentially open-ended, without CAP reform member states will be faced with the need to raise additional revenues to maintain the system—a difficult decision in view of current economic conditions in Europe.

The CAP, once an impetus to increased European economic integration, is now viewed by many European as an impediment. The present operation of the CAP will make it difficult for the Community to address the challenges of the 1980's and beyond, such as the accession of Spain and Portugal. These countries are large producers of fruits and vegetables, olive oil and wine; their accession will bring enormously inceased outlays under the CAP.

The debilitating resource drags represented by the CAP also impede the EC's response to pressures to address social concerns and structural adjustment. The industrial crisis in Europe has sparked demands for increased aids for industrial renewal. Development assistance for poorer regions within the Community has fallen short of expectations of some member states.

REFORM OF THE CAP

Aware of these issues, on May 30, 1980 the EC Council directed the Commission to recommend measures for the reform of the CAP. These include:

Introduction or strengthening of measures designed to reduce the level of support for production above target levels.

Reduction, But not elimination, of the gap between EC and U.S. Prices for grain.

Greater use of direct income subsidies.

Use of a wider range of export mechanisms, such as long-term agreements with purchasers and export credits.

Actions to limit imports of grain substitutes.

Even the limited reform measures recommended by the Commission appear unlikely to be accepted by the member countries, not because they fail to bring about sufficient structural reform but because many member states are unwilling to take politically painful steps affecting their farm sectors.

We have followed movement towards CAP reform with great interest and I must report to you that we have been disapppointed in many respects. The intention to move internal grain prices towards world market levels is an encouraging sign, but the degree of reduction in support levels seems inadequate to the task and production targets are likely to be set too high. If the EC were to limit imports, especially of grain substitutes, it would restrict our trade in corn gluten feed, which accounts for $600–700 million in U.S. exports. We are concerned that the Commission's measures would institutionalize subsidized exports at levels based on the EC's current market share. This, coupled with the suggested aggressive export program, would continue displacement of our exports—and those of many countries—in third markets in many products, such as those in which we have formally challenged EC export subsidies: wheat flour, poultry, pasta and sugar.

U.S. REACTION

It is not surprising that our reaction to the directions of EC policies and practices has been strong. Despite our understanding of the problems faced by European leaders and the economic and security stake we have in a prosperous and strong Europe, the day has long since passed when the United States could ignore actions threatening our markets or lightly sweep trade problems under the rug of our security or foreign policy interests. We have long encouraged European unity but also meaningful reform of the CAP in ways that do not pass off the costs of internal programs to trading partners.

With increasing evidence that the direction and depth of CAP reform are inadequate, our efforts are entering a new phase. Publicly and privately, we have had to speak out more strongly and clearly than we have in the past. Thus, in a series of meetings this year, we have emphasized to the EC that:

The United States opposes an expansive EC export program, based on continued export subsidies and other objectionable features that have been considered, such as long-term supply agreements unjustified by special marketing conditions, and increased export credits for agricultural products.

We will continue to challenge unfair export competition in third markets. This will include full use of the GATT dispute settlement procedures and pressure in other fora, as appropriate. Thus, we will seek to encourage reform of the CAP by reducing the EC's ability to substitute exports for meaningful reform.

We will to continue to take vigorous measures to protect our access to the EC market itself and, in line with the liberal trade policy of this administration, seek to improve that access where possible by arguing for reducing barriers currently interfering with our ability to market our products within the Community.

This message has been brought forcefully to CE officials by many members of this administration. Secretary Block emphasized our concerns during his contacts earlier this year with EC agricultural officials, as did Trade Representative Brock. Secretary Haig stressed this point in his recent discussions in Brussels.

THE DECEMBER 11 MEETING WITH COMMISSION PRESIDENT THORN

On December 11, Secretaries Haig and Block and Trade Representative Brock together called on European Commission President Thorn and other Commissioners in Brussels. Both sides reviewed the current situation. For our part, we reiterated our support for European unity and assured that we were not challenging the fundamental elements of the CAP, but stressed that we were opposed to certain aspects of the CAP which were having an impact on our agricultural interests. The EC Commissioners emphasized the importance they attach to maintaining the CAP within the existing framework of social and food security goals and stressed that the EC would not seek to obtain more than an equitable share of trade in third markets. As a result of this unprecedented meeting:

We believe the EC, at the highest levels, better understands the significance we attach to continued and unimpaired access to the EC market and to ensuring that agricultural trade in third markets reflect comparative advantage. The are more aware of the importance we attach to their efforts to reduce the adverse impact of the CAP on the exports of the U.S. and more efficient agricultural producers.

We expressed our satisfaction that a tax on vegetable oils had been recently rejected but concern that the subject might arise in the future. We reaffirmed our intention to pursue our rights in the GATT and to continue to oppose any efforts to impair our negotiated trade rights, particularly for soybeans and corn gluten feed.

We and the EC confirmed our commitment to a continuing dialogue on agricultural trade issues, and expressed our strong mutual desire that these be resolved in an amicable fashion that preserves the objective of both sides. To this end, we expect to hold further talks with high-level officials of the Commission in Washington in mid-February.

This meeting was an important step in the process of underlining, in a clear and determined fashion, our continuing problems with the effects of EC agricultural programs. It was not a negotiating session nor did we expect to resolve our differences on agricultural trade issues. But it re-emphasized the desire on the part of both sides to continue a dialogue on economic issues and represented a further step in the process of addressing the current trade issues, notably agriculture.

Despite the better mutual understanding, we should be cautious in expecting immediate results. We agree with President Thorn that agricultural issues will be among the most difficult to resolve. Significant problems still lie before us. The linkage among EC agricultural policy, social policy and political cohesion ensures that reform—even in directions which objective observers consider economically rational—will be politically sensitive. The pace of reform will likely be set by the need for consensus. It is also inevitable that changes in a system of carefully fashioned compromises will be resisted by those with vested interests in the present system. Altering over 20 years of momentum will not be any easier for the Community than it was for us in 1973 when we made a major shift from agricultural price supports, which produced surpluses and subsidized exports, to our present farm programs. EC officials, no matter how willing, must obtain the consensus of the 10 member states. We must also keep a weather eye on the planned accession of Spain and Portugal, whose Mediterranean products will place a great stress on the present mechanisms of the CAP.

We cannot expect EC agricultural prices to move rapidly to world levels, nor can we expect to see instant dismantling of the agricultural export subsidy system which causes us so many problems. But there is room for steady movement in this direction.

ROLE OF THE DEPARTMENT OF STATE

The Brussels meeting has, I believe, marked a step forward by helping create a political climate conducive to the resolution of economic problems. It reflects the State Department's special role in meshing our trade, economic and foreign policy interests. In particular, we have constantly stressed to the EC that these agricultural issues must be satisfactorily resolved or they will impact on broader US-European political and economic relations.

The State Department also strongly supports efforts to increase sales of US farm products abroad by pressing for reduction or elimination of other countries' trade barriers. We support our agricultural exporters in trade disputes involving such issues as quality, payment and sanitary standards. The Department—through its official in Washington and in Embassies abroad—also plays an active and important role in supporting USDA's agricultural export promotion efforts. Shortly after this Administration came into office, Secretary Haig sent a message to our ambassadors overseas stressing the importance he personally attaches to the promotion of agricultural exports as one of the chief objectives of our embassies. We are following this message with one calling special attention to the particular advantages to the United States of promoting sales of value-added agricultural products.

I would be pleased to respond to any questions you may have. Thank you.

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C., January 6, 1982.

Hon. ROBERT D. HORMATS,
Assistant Secretary for Economic and Business Affairs,
U.S. Department of State, Washington, D.C.

DEAR MR. HORMATS: Enclosed are questions submitted by Senator Hawkins regarding your testimony before the Senate Agriculture Subcommittee hearings on the trading relationship between the United States and the European Economic Community. I would appreciate your responses which will be made part of the printed hearing record.

Senator Hawkins has requested that a copy of your answers be sent directly to her office, Room 1327 Dirksen, and a copy should be mailed to the Agriculture Committee to the attention of Denise Alexander.

Thank you for your cooperation in this matter.

With kindest regards.

Sincerely,

JESSE HELMS, *Chairman.*

DEPARTMENT OF STATE,
Washington, D.C., February 2, 1982.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry,
U.S. Senate.

DEAR MR. CHAIRMAN: Enclosed please find the replies to Senator Hawkins questions regarding Mr. Hormats' testimony before the Senate Agriculture Subcommittee on our agricultural trading relationship with the European Community. If we can provide your Committee with any further information please let me know.

Sincerely,

Alvin Paul Drischler,
Acting Assistant Secretary for Congressional Relations.

Enclosures.

Question. We have heard testimony to the fact that many of the EC's agricultural policies are benefical to certain EEC nations at the expense of other EEC countries; for example, England and Germany are net losers while France is a net gainer in these policies. How does the EEC attempt to make their policies fairer to all member nations, and is there anything the United States can learn and use from their experience within the EEC?

Answer. It is certainly true that the nations with a comparative advantage in agriculture within the European Community (EC) benefit more from the operation of the Common Agricultural Policy (CAP) than the others. However, the more competitive industrial nations, such as Germany, benefitted proportionately more from the creation of a single EC market for manufactured goods. The formation of the EC allowed member nations to dismantle the customs barriers between them, resulting in a much larger market and increased opportunities for competitive manufactures. The CAP is part of the larger picture of the Community, designed to make the EC benefit agriculture as well as industry.

In creating a single large market in place of 10 smaller ones, the EC members were seeking some of the advantages of the U.S. economy, which has benefitted from it size, and the ability of goods to move freely among the states.

Question. You have held several different positions in trade policy and foreign affairs under several different Administrations. Based on your personal knowledge of EEC officials, do you believe that they are taking our concerns seriously, or are they going to continue to stall and resist any efforts to modify their policies?

Answer. Most of the EC officials with whom I have dealt understand our agricultural concerns. But a number of European officials, pressed by strong domestic agricultural interests, frequently are less willing or unable to take the actions we believe are necessary. By discussing agricultural issues in high-level meetings, such as the December 11 meeting in Brussels between Secretary Haig, Secretary Block, and U.S. Trade Representative Brock and EC President Thorn, I believe we have convinced EC officials that agricultural issues are of vital importance to the US, and cannot be sidestepped in our bilateral relationship. EC officials do take our concerns seriously, but the EC's internal agricultural problems defy easy solutions. While we cannot expect the EC to change its policies overnight, we can and will press for steady improvement.

Question. Traditionally the State Department's policies have often been at odds with American agricultural policies. To what extent is the State Department committed to helping in our efforts to modify the existing agricultural policies of the EEC?

Answer. Because of the preeminent position of the US in world agricultural trade, international agricultural issues are now so important to our relations with many other countries that they are necessarily an integral part of our foreign policy. For instance, the State Department participates in efforts to increase access for our farm products in overseas markets by pressing for reduction and elimination of other countries' trade barriers. We support our agricultural exporters in trade disputes involving such issues as quality, payment and sanitary standards. We also support USDA's agricultural export promotion efforts through our embassies and our interaction with foreign governments. In fact, shortly after the Administration came into office, Secretary Haig sent a personal message to our ambassadors overseas stressing the importance he personally attaches to the promotion of agricultural exports as one of the chief objectives of our embassies.

The State Department has been cooperating very closely with USDA and USTR in developing the Administration's strategy for confronting damaging EC and Japanese agricultural policies. We are fully committed to furthering the interests of US agriculture as an element of the national interest.

U.S. Department of Commerce,
The Under Secretary for International Trade,
Washington, D.C., January 25, 1982.

Hon. Jesse Helms,
U.S. Senate, Washington, D.C.

Dear Senator Helms: Thank you for your letter and the opportunity to comment further on the issue of the trading relationship between the United States and the European Economic Community.

Enclosed are the answers to Senator Hawkins' questions from my December testimony before the Subcommittee on Foreign Agricultural Policy. As requested, copies of the attached answers are being sent directly to Senator Hawkins and Denise Alexander of the Agriculture Committee. Please contact me if I may be of further assistance.

Sincerely,

Lionel H. Olmer.

Question. The Commerce Department is responsible for handling a wide range of trade and commerce issues. Can you tell the subcommittee the relative importance of agricultural trade with the EC as compared to other U.S. trade with the EC?

Answer. Agricultural exports are a key component of our overall trade with the EC. We are each other's largest agricultural market. In 1981, agricultural products comprised about 18 percent of our total exports to the EC and totaled approximately $8.5 billion.

In addition to its large dollar value, our agricultural trade with the EC contributes significantly to our overall trade surplus with the Community. The Commerce Department certainly recognizes the importance of these favorable export earnings, a fact which enters prominently into our formulation of trade policy and promotional efforts vis-a-vis the EC.

Question. International trade and foreign policy involve many difficult decisions and, at times, trade-offs between interests. Can this committee be assured that agricultural trade will not be sacrificed for other interests?

Answer. The Commerce Department has no intention of neglecting, downgrading or sacrificing U.S. agricultural trade interests in our policy dealings with the Community. We have taken every appropriate opportunity to impress upon EC Commission officials that actions which illegally or unfairly prejudice the access of our farm exports to either the EC or to third markets or which result in injury to U.S. producers as a result of increased EC exports to the U.S. will not be tolerated. We have, of course, supported State, Agriculture and USTR in their efforts in this regard and will continue to do so. All available remedies in GATT and elsewhere to protect our legal rights in the agricultural trade field should and will be pursued on their own merits and not "traded off" for other interests.

Question. If the EC refuses to heed our 301 petitions and other complaints, do you think countervailing duty action would be useful? What other action would you recommend?

Answer. Countervailing duty (CVD) actions are only relevant in instances where U.S. agricultural interests are injured by direct imports into the U.S. market from the European Community (EC). CVD actions are not applicable in those instances when 301 petitions refer to unfair trade practices within EC or third country markets.

The Commerce Department will apply the countervailing duty law vigorously whenever appropriate. A mechanism for addressing actions prejudicial to U.S. interests in EC and third markets is the initiation of dispute settlement procedures under the GATT Subsidies Code in response to petitions filed under Section 301. We are currently pursuing with the EC a number of Section 301 cases under the Subsidies Code involving agricultural products. If the Subsidies Code process does not result in a satisfactory resolution of our complaints, Section 301 provides the President with the authority to take steps to enforce our rights and eliminate the unfair practices. The U.S. would also have the option of pursuing such cases under Articles XXII and XXIII of the GATT.

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